The Hongkong and Shanghai Banking Corporation
Annual Report 1976

Mr Ian Carman, Business Editor

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Contents

To illustrate the theme of this year's Essay we have commissioned paintings on 'The Environment' by twelve artists in England, North America, Japan and Hong Kong. Each was asked to interpret the subject in his own way. The cover symbolises the theme by combining elements from the illustrations into a three-dimensional E, the initial letter of Environment, as well as Ecology and Energy, with the front cover showing natural and the back man-made elements.

Design Henry Steiner/Graphic Communication Ltd

Ordinary Yearly General Meeting

Notice is hereby given that the ordinary yearly general meeting of the shareholders of the Corporation will be held at the Hilton Hotel, Hong Kong on Friday the 15th day of April 1977, at noon for the purpose of receiving and considering the reports of the directors and of the auditors and of the accounts for the year ended 31 December 1976 and for the election of directors and fixing their remuneration and the appointment of auditors. Sir Albert Rodrigues, who is 65 years of age, has given the appropriate notice to the company of his willingness to submit himself for re-election in accordance with the provisions of Regulation 89(h) and a Resolution giving effect to this will be proposed.

The register of shares of the Corporation will be closed from Saturday the 19th day of March to Thursday the 7th day of April 1977 (both days inclusive) during which period no transfer of shares can be registered.

By order of the Board,
B J N Ogden, *Secretary*

Hong Kong, 22 February 1977

The Hongkong and Shanghai Banking Corporation
Incorporated in Hong Kong with limited liability

Capital authorised
HK$1,250,000,000

Capital issued and fully paid
HK$954,428,673

Reserve Fund
HK$1,050,000,000

Board of Directors
G M Sayer, *Chairman*
M G R Sandberg, *Deputy Chairman*
P G Williams, OBE, *Deputy Chairman*
J H Bremridge, OBE
H P Foxon, OBE
S F Hui
P E Hutson *(Resident Executive Director in London)*
F J Knightly
J L Marden, CBE
A D A G Mosley
D K Newbigging
Y K Pao, CBE
Sir Albert Rodrigues, CBE, ED
G R Ross, CBE
W S Stocks, DFC
E R Udal

London Committee
Sir John Saunders, CBE, DSO, MC, *Chairman*
K M G Anderson
J A F Binny
Lord Catto of Cairncatto
J M Blyth Currie
R J Dent
P E Hutson
H N L Keswick
A Macqueen, CMG
J A Swire
Sir Michael Turner, CBE
Sir Philip de Zulueta

General Managers in Hong Kong
J L Boyer
P E Hammond
I H Macdonald, OBE
M J Pridham

The Chairman's Statement

The Statement delivered to shareholders at the Ordinary Yearly General Meeting at the Hilton Hotel, Hong Kong, on Friday, 15 April 1977, by the Chairman Mr G M Sayer.

On behalf of your Board of Directors it gives me much pleasure to welcome you to this the Ordinary Yearly General Meeting.

The Group Consolidated Profit for 1976, after deduction of outside shareholders' interests in subsidiaries, was HK$393 million representing an increase of HK$60 million or 18 per cent over the profit for 1975.

The accounts of the parent company, The Hongkong and Shanghai Banking Corporation, include dividends from The British Bank of the Middle East, Mercantile Bank Ltd, Hang Seng Bank Ltd, Wardley Ltd and Wayhong Investment Ltd, as well as the Bank's Trustee Company in Hong Kong and finance companies in Hong Kong, Malaysia, Singapore and Brunei. Other subsidiaries retained their profits.

After making transfers and provisions the Bank's own profit was HK$356 million compared with HK$312 million for the previous year.

We propose to transfer HK$50 million to the published reserves and after allowing for this and for the interim dividend of HK$0.16 a share your Directors recommend a final dividend of HK$0.44 a share.

The Auditors have pointed out that because of changes in our property portfolio during 1976 the previous valuation figure of HK$300 million would in fact have been below cost. It was therefore felt appropriate to write up property to a more realistic figure which bore a closer relationship to current values. Your Directors have accordingly revalued Bank premises at HK$500 million, but, having regard to the specialised nature of some of our properties, they have continued to adopt a very conservative view in this respect. The surplus arising from this revaluation has been transferred to Inner Reserves.

As a result of this transfer and after making allowances for changes in the net asset value of certain subsidiary companies, which are shown in the Notes to the Accounts, it was felt that an amount of HK$180 million could be transferred from Inner Reserves to the published Reserve Fund.

Following this meeting you will be asked to approve a further increase in the Bank's paid up capital by the capitalisation of some HK$95 million from the Reserve Fund to allow for the issue, free of charge, of one new share for every ten shares held on 7 April. If this proposal is approved, the amount capitalised from the Reserve Fund will be restored by a transfer from Undistributed Profits. Your Directors have already announced that they expect to be able to recommend dividends for 1977 totalling not less than HK$0.60 a share on the capital as increased.

At last year's meeting I said that I thought a revival of the world's principal markets was under way. I did, however, qualify my remarks by warning against anticipating rapid results and, in retrospect, I am glad that I did because the process of recovery, if one takes the world as a whole, has been slow and patchy.

After 30 years of almost continuous growth coupled with rising living standards and expectations it was I suppose inevitable that the old order would change and that we would have to go through a period of re-assessment and re-arrangement of priorities, both social and economic. We are in such a phase at the moment; old agreements covering monetary and trading matters have been dismantled or abandoned; and in the absence of new agreements more in tune with today's conditions, they have tended to be superseded by fiscal and other legislation designed to protect and preserve national interests. In this sort of atmosphere it is no easy thing to generate confidence and this has been borne out by a low rate of new investment in plant and machinery as well as new investment in mineral and other developments.

But if we are to overcome the twin evils of inflation and underemployment no amount of planning by itself is going to provide the answer. The world's economy has to be encouraged to expand and this means providing incentives to produce and consume. The principle of allowing market forces to dictate the level of production, whether it be primary produce or manufactured goods, is not the whole solution, nor can it be sustained in an age where the maintenance of minimum living standards is rightly the bedrock of every Government's policy, irrespective of doctrine.

Some degree of international understanding is therefore needed on the one hand to promote growth and on the other to reduce the consequences of sudden shortages or excesses which occur even in the best organised societies and which can have serious and long lasting effects on individual economies. The new administration in the USA to whom we look for a lead has indicated that it is aware of these shortcomings – and that it will actively sponsor international discussion with the aim of stimulating economic recovery.

Fluctuating markets, whether they be for imports of essential foodstuffs and fuel and of materials for industry or for the export of manufactured goods, have had their impact in

Hong Kong. However, the timely measures taken by the Government in 1975 to ensure that the economy functioned effectively established a sound competitive base from which industry, trade and other forms of commercial activity could subsequently exploit new opportunities, as the recession eased. The effectiveness of the policy decisions taken at that time has been plain to see in economic performance in 1976.

A bye product of this success, if that be the right word, has been the strengthening of the Hong Kong Dollar. Whereas those in the business of exporting have so far been able to absorb the effects, it will not be in their or anyone's interests to allow our currency to appreciate too much and certainly not too quickly.

We have continued to open new branches reflecting a great adherence to the banking habit by the people of Hong Kong. We now have 144 branches operating in the urban areas and the New Territories which offer a wide and ever increasing range of services.

In much the same way the Hang Seng Bank Ltd, whose business is entirely in Hong Kong, have expanded in the prevailing conditions and published excellent results for which Mr S H Ho, the Honourable Q W Lee and all members of their staff are to be congratulated.

The Middle East is an area which is in the forefront of people's minds, covering as it does countries which now have some of the highest levels of per capita income. Much of the world's accumulated monetary resources are moving into the hands of oil producing states. To manage and to co-ordinate the orderly spending of this wealth which is a comparatively new phenomenon for those charged with this responsibility will undoubtedly be a difficult task. Understanding and agreement between oil producer and consumer is an essential ingredient; there has been some progress in this regard and if this can be maintained it will strongly influence the pace of economic recovery.

In the Lebanon a cease fire has been arranged. The damage to property and loss of life has been appalling and The British Bank of the Middle East's operations in that country have suffered in common with others. It has been necessary for them to make provisions for outstandings considered to be suspect and as a consequence the published profit after tax of that Bank for 1976 at £4,462,000 was slightly less than the previous year, but sufficient to allow the same dividend of £3,500,000 to be maintained. Operating profit was nonetheless a record, reflecting buoyant conditions elsewhere in the region. During the year the paid-up capital was again increased, to £20 million, and the Reserve Fund increased to a similar figure, thereby raising total published Shareholders' Funds to slightly over £40 million.

The results of branches, subsidiaries and associated companies elsewhere have varied considerably and were largely conditioned by circumstances existing in the territories in which they are situated. For example in Australia, where we are heavily involved in term finance of property, the real estate market has remained very weak indeed – so much so that we were obliged to subscribe further capital to our operating companies there to allow for additional provision to be made for debts in the doubtful category and to cover running losses. We are however hopeful of an improved business environment in the year ahead, which in my opinion is long overdue.

I have in recent years had to report disappointing results from our subsidiary in the USA, The Hongkong Bank of California. There was a significant improvement during 1976, but we are still faced with a serious problem in the form of a tax claim by the Californian Franchise Tax Board. This particular type of taxation, which in our opinion is discriminatory, is based on the Bank's world-wide profits and, if the claim is pressed, it will render it improbable that the company, as a wholly-owned subsidiary, will ever make a profit after tax. The claim is the subject of dispute and negotiation in California and we hope that some form of settlement can be reached without either recourse to litigation or the restructuring of our operation. It is not possible to predict the outcome with confidence and we must be prepared for every eventuality.

I will not attempt to comment on all your Bank's interests, which are extensive. Nevertheless I would not wish to let the occasion pass without mentioning Wardley Ltd, our merchant banking arm, which has made rapid progress since it was established five years ago. 1976 was again a year of expansion in the field of wholesale financial services and it enabled them to increase their dividend by 20% to HK$24 million. Another subsidiary company which showed substantially improved results was Wayhong Investment Ltd, the holding company for the Bank's investments in transportation. Distribution by way of dividend was raised from HK$59.9 million to HK$73.7 million, mainly as a result of increased dividends received from companies of the World Wide Group. It is gratifying to be able to report improved earnings from shipping at a time when the industry, particularly in the bulk cargo sector, has been going through a difficult period. It says much for the astuteness of Mr Y K Pao and his colleagues

that they have been able to steer a steady and secure course through somewhat troubled waters.

In May we completed the move to our new and prestigious offices at 99 Bishopsgate London, where we were joined by The British Bank of the Middle East and Mercantile Bank Ltd. Opportunity was at the same time taken to acquire the head lease of this property and we subsequently sold the old premises in Gracechurch Street at an attractive price, given the state of the property market. In Jakarta the branch moved into a new building and in Kuala Lumpur construction of our new Malaysian headquarters is proceeding satisfactorily.

We continue our physical expansion, with new branches being opened in Chinatown, New York; in Jersey, Channel Islands; and in Bahrain, the last being an Offshore Banking Unit. In the course of 1977 we expect to establish branches in Gerrard Street, London; in Nassau, Bahamas; in Edinburgh, Scotland; and in Amsterdam, Holland.

There were no changes in the composition of your Board of Directors. However, Mr Peter Foxon is resigning shortly following his departure for the United Kingdom and I am sure you would wish me to record our deep appreciation of his seven years service as a Director. Also resigning on retirement after this meeting is Mr Eric Udal, Executive Director, who will be replaced by Mr John Boyer. Mr Udal joined the Bank as Group Legal Adviser 15 years ago, after an earlier career with the United Kingdom Treasury Solicitor's Department. He has given outstanding service at a time of great change in the Bank's fortunes and his presence will be greatly missed.

As you know I shall be retiring next September and will be succeeded as Chairman by Mr Michael Sandberg, to whom I extend my best wishes. Looking back to those uncertain days after the war years when I first joined the Bank I consider myself fortunate to have been able to observe and to participate in enormous changes that have taken place, generally for the better, in Asia and countries adjoining the Pacific. I have no doubt that, given a measure of political stability, the prospects for real economic growth and influence in world affairs by countries of this region are more favourable than they have ever been.

Throughout my career in the Bank and especially during my time as Chairman I have received invaluable support from all members of the staff and I am sure you will want to join me in thanking them for the service they so willingly give.

My Statement, the Directors Report and Accounts, the Chairman's International Survey and Group Abbreviated Balance Sheets will be in your hands before the middle of next month. Copies of the Group Accounts, which are before you today, will be dispatched to shareholders domiciled outside Hong Kong immediately following this meeting.

Ladies and Gentlemen, the report and statement of accounts having been in your hands for the required period, I now formally propose their adoption. After this proposal has been seconded I shall be pleased to answer, to the best of my ability, any questions which shareholders may wish to ask about the report and accounts.

Report of the Directors

To be presented to the members at the ordinary yearly general meeting to be held at the Hilton Hotel, Hong Kong on 15 April 1977.

The directors have pleasure in submitting the balance sheet of the Bank at 31 December 1976 together with the profit and loss account for the year ended at that date. A consolidated balance sheet and a consolidated profit and loss account of the Group are also annexed.

		Hong Kong Dollars
The profit of the Bank for the year, as defined in Note 3, amounts to		$356,387,152
To this must be added the undistributed profit brought forward from the previous year amounting to	$156,822,764	
Less: Transferred to Reserve Fund following the extraordinary general meeting held in March 1976	76,841,460	79,981,304
		$436,368,456
An interim dividend of $0.16 per share on 381,771,469 shares was paid on 10 September 1976 amounting to		61,083,435
leaving a balance available for distribution of		$375,285,021
This balance the directors recommend be appropriated as follows:		
Amount to be transferred to Reserve Fund	$ 50,000,000	
A final dividend of $0.44 per share on 381,771,469 shares	167,979,446	217,979,446
leaving a balance to be carried forward to next year of		$157,305,575

The above recommendations have been incorporated in the accounts. In addition, an amount of $180,000,000 has been transferred from Inner Reserves to Reserve Fund.

Activities

The Hongkong and Shanghai Banking Corporation, operating through a wide branch network and with extensive interests in subsidiary and associated companies, provides a comprehensive range of banking, financial and related services in Hong Kong, Europe, the Middle East, India, South-East Asia, Japan, Australasia and North America.

continued on page 8

Report of the Directors *continued from page 7*

Directors
During the year Sir Douglas Clague retired from the Board.
J L Marden, G R Ross and F J Knightly retire by rotation but being eligible offer themselves for re-election.

Sir Albert Rodrigues having reached the age of 65 will, special notice in accordance with Regulation 89(h) having been given, be proposed for re-election.

Capital
There was a free scrip issue of 34,706,497 shares of $2.50 each during the year as resolved by the shareholders at an extraordinary meeting on 26 March 1976, representing a capitalisation of sums standing to the credit of the Share Premium Account and of the Reserve Fund.

Substantial Shareholdings
There are no substantial holdings in the share capital of The Hongkong and Shanghai Banking Corporation.

Donations
During the year the Bank and its subsidiaries made donations totalling HK$3,116,791.

Contracts
None of the Directors had a material interest at any time during the year in any contract of significance in relation to the Company's business.

Auditors
The Accounts have been audited by
Messrs Peat, Marwick, Mitchell & Co. and
Messrs Price Waterhouse & Co.
who are eligible for re-appointment.

On behalf of the Board,
G M Sayer, *Chairman*

Hong Kong, 25 March 1977

Report of the Auditors to the members of The Hongkong and Shanghai Banking Corporation

We have examined the annexed accounts and have obtained all the information and explanations we have required.

In our opinion, based on our examination and on the reports of the auditors of certain subsidiaries not audited by us, the accounts of the Bank and of the Group set out on pages 9 to 11 and 13 to 18 comply with the provisions of the Hong Kong Companies Ordinance applicable to banking companies, and on this basis, give a true and fair view of the state of affairs at 31 December 1976, and of the profit for the year ended on that date.

Peat, Marwick, Mitchell & Co.
Price Waterhouse & Co.
Chartered Accountants
Certified Public Accountants

Hong Kong, 25 March 1977

The Hongkong and Shanghai Banking Corporation

Consolidated Profit and Loss Account for the year ended 31 December 1976

		1976 Hong Kong Dollars	1975 Hong Kong Dollars
Combined net profit of The Hongkong and Shanghai Banking Corporation and its subsidiaries as defined in Note 3		$440,048,315	$367,546,542
Deduct: Interest of outside shareholders in subsidiaries			
Dividends	$ 21,224,610		18,157,546
Appropriations to general reserve and unappropriated	25,269,180	46,493,790	16,196,000
Interest of members of The Hongkong and Shanghai Banking Corporation in the profit for the year		393,554,525	333,192,996
Balance brought forward from previous year			
Parent company	156,822,764		85,806,289
Less: Transferred to Reserve Fund	76,841,460	79,981,304	—
Subsidiary companies	5,948,489		36,442,988
Less: Difference arising from revised currency parities	2,658,809	3,289,680	2,383,171
		476,825,509	453,059,102
Deduct: Adjustment arising on consolidation		9,164,852	4,683,234
		467,660,657	448,375,868
Deduct: Amount transferred to Reserve Fund			
Parent company	50,000,000		40,000,000
Subsidiary companies	59,652,602		44,306,931
Dividends paid and proposed	229,062,881	338,715,483	201,297,684
Balance carried forward			
Parent company	157,305,575		156,822,764
Subsidiary companies	(28,360,401)	$128,945,174	5,948,489

The annexed notes form a part of these accounts.

The Hongkong and Shanghai Banking Corporation

		1976 Hong Kong Dollars	*Sterling Equivalent*	1975 Hong Kong Dollars
Share Capital Authorised: 500,000,000 shares of HK$2.50 each		**$ 1,250,000,000**	*£ 157,232,704*	$ 1,250,000,000
Issued: 381,771,469 shares of HK$2.50 each, fully paid		**$ 954,428,673**	*£ 120,053,921*	$ 867,662,430
Reserve Fund		**1,189,450,489**	*149,616,414*	931,058,384
Share premium account		—	—	9,924,783
Profit and loss account		**128,945,174**	*16,219,519*	162,771,253
		2,272,824,336	*285,889,854*	1,971,416,850
Minority interests in subsidiaries		**195,976,947**	*24,651,188*	168,551,256
Hong Kong currency notes in circulation (Note 4)		**3,971,466,763**	*499,555,568*	3,344,637,663
Current, deposit and other accounts, including inner reserves and provisions (Note 5)	**$47,998,902,058**			41,837,762,152
Proposed final dividend	**167,979,446**	**48,166,881,504**	*6,058,727,233*	145,767,288
Amount due to subsidiary company not consolidated (Note 1)		**17,349,372**	*2,182,311*	15,567,124
Balance of drafts, remittances etc. in transit between offices		**388,431,073**	*48,859,254*	(98,808,558)
Engagements on behalf of customers				
Acceptances	**275,705,087**			483,137,601
Confirmed credits, guarantees and endorsements	**10,973,030,452**	**11,248,735,539**	*1,414,935,288*	9,854,342,324
		$66,261,665,534	*£8,334,800,696*	$57,722,373,700

B J N Ogden, *Secretary*

Consolidated Balance Sheet at 31 December 1976

		1976 Hong Kong Dollars	*Sterling Equivalent*	1975 Hong Kong Dollars
Current assets				
Cash in hand and balances with other banks (Note 11)		**$ 2,480,299,406**	*£ 311,987,346*	$ 1,962,055,000
Money at call and short notice		**10,380,817,047**	*1,305,763,150*	11,398,512,838
British and other government treasury bills		**550,303,594**	*69,220,578*	521,597,435
Time deposits with banks payable within twelve months		**5,648,897,064**	*710,553,090*	4,144,308,127
Trade bills discounted and bankers' certificates of deposit purchased		**5,574,233,582**	*701,161,457*	4,292,278,666
Hong Kong Government certificates of indebtedness		**3,912,000,000**	*492,075,472*	3,286,000,000
Quoted investments, at under market values:				
Quoted in Hong Kong	**$1,109,198,252**			
Quoted outside Hong Kong (Note 12)	**793,351,326**	**1,902,549,578**	*239,314,413*	1,869,873,446
Unquoted investments, at cost less amounts written off		**173,988,726**	*21,885,374*	189,200,981
Advances to customers and other accounts		**22,016,055,854**	*2,769,315,202*	18,139,611,460
Investment in subsidiary company not consolidated (Note 1)		**4,736,849**	*595,830*	14,562,098
Fixed assets				
Investments in associated companies (Note 7)	**1,313,957,322**			1,021,082,971
Bank premises (Note 2)	**1,055,090,973**	**2,369,048,295**	*297,993,496*	545,810,753
Liabilities of customers for engagements		**11,248,735,539**	*1,414,935,288*	10,337,479,925
		$66,261,665,534	*£8,334,800,696*	$57,722,373,700

Directors
G M Sayer
Sir Albert Rodrigues
D K Newbigging

The annexed notes form a part of these accounts.

The Hongkong and Shanghai Banking Corporation

Profit and Loss Account for the year ended 31 December 1976

		1976 Hong Kong Dollars	1975 Hong Kong Dollars
Profit, as defined in Note 3		**$356,387,152**	$312,314,159
Add: Balance brought forward from previous year	**$156,822,764**		85,806,289
Less: Transferred to Reserve Fund following the extraordinary general meeting held in March 1976	**76,841,460**	**79,981,304**	—
		436,368,456	398,120,448
Deduct: Amount to be transferred to Reserve Fund	**50,000,000**		40,000,000
Dividends:			
Interim dividend of $0.16 per share on 381,771,469 shares paid on 10 September 1976	**61,083,435**		55,530,396
Proposed final dividend of $0.44 per share on 381,771,469 shares	**167,979,446**	**279,062,881**	145,767,288
Balance carried forward		**$157,305,575**	$156,822,764

The annexed notes form a part of these accounts.

The Hongkong and Shanghai Banking Corporation

Incorporated in Hong Kong with limited liability

		1976 Hong Kong Dollars	*Sterling Equivalent*	1975 Hong Kong Dollars
Share Capital				
Authorised: 500,000,000 shares of HK$2.50 each		**$ 1,250,000,000**	*£ 157,232,704*	$ 1,250,000,000
Issued: 381,771,469 shares of HK$2.50 each, fully paid		**$ 954,428,673**	*£ 120,053,921*	$ 867,662,430
Reserve Fund		**1,050,000,000**	*132,075,472*	820,000,000
Share premium account		—	—	9,924,783
Profit and loss account		**157,305,575**	*19,786,865*	156,822,764
		2,161,734,248	*271,916,258*	1,854,409,977
Hong Kong currency notes in circulation (Note 4)				
Authorised note issue	**$ 30,000,000**			30,000,000
Excess note issue	**3,912,000,000**	**3,942,000,000**	*495,849,057*	3,286,000,000
Current, deposit and other accounts, including inner reserves and provisions (Note 5)	**25,514,368,472**			22,511,792,324
Amounts due to subsidiary companies	**2,245,794,655**			2,549,307,233
Proposed final dividend	**167,979,446**	**27,928,142,573**	*3,512,973,908*	145,767,288
Balance of drafts, remittances etc. in transit between offices		**251,545,596**	*31,640,955*	28,796,929
Engagements on behalf of customers				
Acceptances	**181,014,576**			248,904,016
Confirmed credits, guarantees and endorsements	**5,475,164,890**	**5,656,179,466**	*711,469,115*	4,861,504,249
		$39,939,601,883	*£5,023,849,293*	$35,516,482,016

B J N Ogden, *Secretary*

Balance Sheet
at 31 December 1976

		1976 Hong Kong Dollars	*Sterling Equivalent*	1975 Hong Kong Dollars
Current assets				
Cash in hand and balances with other banks		$ **953,958,542**	*£ 119,994,785*	$ 665,574,191
Money at call and short notice		**6,752,481,502**	*849,368,742*	7,661,790,302
British and other government treasury bills		**422,168,201**	*53,102,918*	352,508,721
Time deposits with banks payable within twelve months		**3,502,341,266**	*440,546,071*	2,775,982,494
Trade bills discounted and bankers' certificates of deposit purchased		**3,892,778,208**	*489,657,636*	3,069,821,288
Hong Kong Government certificates of indebtedness		**3,912,000,000**	*492,075,472*	3,286,000,000
Quoted investments, at under market values:				
Quoted in Hong Kong	**$535,679,764**			
Quoted outside Hong Kong	**251,607,782**	**787,287,546**	*99,029,880*	733,904,556
Unquoted investments, at cost less amounts written off		**80,865,253**	*10,171,730*	81,371,794
Advances to customers and other accounts		**10,303,258,741**	*1,296,007,389*	8,746,846,109
Amounts due by subsidiary companies		**2,026,730,425**	*254,934,645*	1,583,431,136
Fixed assets				
Investments in banking subsidiary companies (Note 6)	**738,489,809**			751,178,004
Investments in other subsidiary companies (Note 6)	**292,184,931**			264,135,333
Investments in associated companies (Note 7)	**118,877,993**			133,529,823
Bank premises (Note 2)	**500,000,000**	**1,649,552,733**	*207,490,910*	300,000,000
Liabilities of customers for engagements		**5,656,179,466**	*711,469,115*	5,110,408,265
		$39,939,601,883	*£5,023,849,293*	$35,516,482,016

Directors
G M Sayer
Sir Albert Rodrigues
D K Newbigging

The annexed notes form a part of these accounts.

Notes to the Accounts

1 Basis of Consolidation

The consolidated accounts are prepared from the audited accounts of The Hongkong and Shanghai Banking Corporation and its subsidiaries made up to 31 December 1976, with the exception of The British Bank of the Lebanon SAL. This company has been unable to produce audited accounts for the years 1975 and 1976 owing to conditions in Lebanon, and no profit or loss in respect of it has been taken into the consolidated Accounts for those years. The aggregate of profits (less losses) for this company, from its acquisition in 1971 to 31 December 1974, was £175,259 (HK$1,393,309) which was dealt with year by year in the consolidated accounts.

2 Accounting policies

a *Doubtful debts*

Provision is made for doubtful debts as and when they are so considered, and these provisions are deducted from advances in the balance sheet. In addition, an amount has been set aside as a general provision for doubtful debts.

b *Foreign Currencies*

Foreign Currency balances have been converted into Hong Kong dollars at approximately the rates ruling at 31 December 1976.

c *Bank Premises and Equipment*

i Bank premises of The Hongkong and Shanghai Banking Corporation are shown at directors' valuation. At 31 December 1976 this was HK$500,000,000 *(1975: HK$300,000,000)* which figure is considered to be substantially below current market value.

The surplus arising from this valuation was transferred to Inner Reserves.

Bank premises of Mercantile Bank Ltd are also included at directors' valuation; premises of other subsidiary companies are included at cost less amounts written off.

ii Furniture, fittings and equipment of The Hongkong and Shanghai Banking Corporation, The Mercantile Bank and the British Bank of the Middle East are written down to nil. Any balances under this heading in the accounts of other subsidiaries are written off on consolidation.

3 Profit

The profits of the Bank and of the Group for the year are shown after:

a Provision for taxation on profit to date. The amount set aside for Hong Kong profits tax has been computed at a rate of 17% on profits for the year.

b Transfers to the credit of inner reserves, from which provision has been made for diminution in value of assets and for differences arising from the revaluation of foreign currencies at the year end.

	Bank		*Group*	
	1976	1975	**1976**	1975
c Auditors' remuneration	**HK$1,290,727**	HK$1,428,533	**HK$2,988,356**	HK$2,584,227

d Directors' emoluments	**1976**	1975
i Fees	**HK$ 561,500**	HK$ 340,000
ii Other emoluments	**4,528,756**	4,234,413
	HK$5,090,256	HK$4,574,413

4 Note Issue

The Hong Kong currency notes in circulation are secured as to the authorised note issues by the deposit of investments having a market value in the case of the Bank of HK$31,950,000 *(1975: HK$34,845,936)*, and in the case of the Group of HK$67,505,134 *(1975: HK$66,114,289)*, and as to the excess note issue by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

5 Current, deposit and other accounts

Current, deposit and other accounts and guarantees include accounts amounting to HK$45,924 *(1975: HK$45,521,107)* in the case of the Bank and to HK$113,563,447 *(1975: HK$101,357,984)* in the case of the Group which are secured by the deposit of assets of the Bank and of the Group respectively.

6 Subsidiary Companies

a At 31 December 1976 the following subsidiary companies have been revalued as stated below on the basis of their net asset worth as shown by their published audited balance sheets at that date:

	1976	1975
Mercantile Bank Limited	**HK$ 77,431,903**	HK$ 97,942,004
The British Bank of the Middle East	**321,999,375**	371,987,655
The Hongkong Bank of California	**51,206,444**	53,577,010
Hang Seng Bank Limited	**287,852,087**	227,671,335
Banking Subsidiary Companies	**738,489,809**	751,178,004
Wardley Limited	**117,287,038**	110,707,675
Wayfoong Finance Limited	**21,928,345**	22,407,081
	HK$877,705,192	HK$884,292,760

b Other subsidiary companies are shown at cost.

c The principal subsidiaries of the Bank at 31 December 1976 were as follows:

Name	*Country of Incorporation*	*Principal area of operation*
The British Bank of the Middle East	United Kingdom	Middle East
Mercantile Bank Limited	United Kingdom	India
The Hongkong Bank of California	United States of America	United States of America
Hang Seng Bank Limited	Hong Kong	Hong Kong
Mortgage And Finance (Malaysia) Berhad	Malaysia	Malaysia
Wardley Australia Limited	Australia	Australia
Wardley Investments Canada Limited	Canada	Canada
Wardley Limited	Hong Kong	Hong Kong
Wayfoong Finance Limited	Hong Kong	Hong Kong
Wayfoong Mortgage and Finance (Singapore) Limited	Singapore	Singapore
Wayhong Investment Limited	Hong Kong	Hong Kong

The above companies are wholly owned by The Hongkong and Shanghai Banking Corporation with the exception of Hang Seng Bank Limited of which 61.02 per cent of the capital is held. All holdings are direct, with the exception of Wayhong Investment Limited which is held by a wholly-owned subsidiary.

d The distribution by certain subsidiary companies of retained profits by way of dividend to the parent company would give rise to additional tax liabilities.

7 Associated companies

a Investments in associated companies are shown at cost or directors' valuation as follows:

	Bank		*Group*	
	1976	1975	**1976**	1975
Quoted in Hong Kong at cost	**HK$ 12,437,180**	HK$ 12,437,180	**HK$ 539,180,029**	HK$ 264,978,842
Quoted outside Hong Kong at cost	**51,267,563**	65,648,276	**98,942,065**	113,058,713
Unquoted at cost	**55,173,250**	55,444,367	**85,558,271**	88,568,922
Unquoted at directors' valuation (net asset value)	—	—	**590,276,957**	554,476,494
	HK$118,877,993	HK$133,529,823	**HK$1,313,957,322**	HK$1,021,082,971

Certain investments included above have been reclassified during the year, and the comparative figures for 1975 for associated companies and unquoted investments have been adjusted accordingly.

b The major associated companies of the Group are:

Name (and country of incorporation)	*Issued share capital*	*Total Consolidated reserves*	*Group interest therein*
	(from latest audited accounts)		
Hutchison International Ltd (Hong Kong)	HK$446,349,093	HK$552,800,000	33.65%
Eastern Asia Navigation Company Ltd (Hong Kong)	HK$192,400,000	HK$430,076,000	21.69%
World Maritime Ltd (Bermuda)	US$ 29,060,000		50%
World Shipping and Investment Co Ltd (Hong Kong)	HK$186,500,000		45%

Where reserves are not shown the appropriate percentage thereof has been incorporated in the consolidated accounts.

The principal country of operation of the first company is Hong Kong. The remaining three companies are constituent parts of a shipping group which operates mainly in Bermuda, Hong Kong, London, New York and Tokyo.

Of the above companies, only Eastern Asia Navigation Company Limited has outstanding loan stock in issue, in the amount of US$50 million, of which the Group holds 33.30%.

c Other associated companies (excluding those which do not principally affect the Group) are:

Name	*Country of Incorporation*	*Group interest in equity capital*
Antony Gibbs Holdings Ltd	United Kingdom	40%
Cathay Pacific Airways Ltd	Hong Kong	25%
Cross Harbour Tunnel Company Ltd	Hong Kong	21.36%
Mercantile Credits Ltd	Australia	30%
South China Morning Post Ltd	Hong Kong	43.81%
World Finance International Ltd	Bermuda	37.5%

8 Capital Commitments

At 31 December 1976 these were as follows:

	Bank		*Group*	
	1976	1975	**1976**	1975
Expenditure contracted for	**HK$ 17,764,995**	HK$ 20,659,894	**HK$ 55,484,357**	HK$ 97,110,587
Expenditure authorised by directors but not contracted for	**167,146,707**	163,659,511	**167,409,092**	172,734,703
	HK$184,911,702	HK$184,319,405	**HK$222,893,449**	HK$269,845,290

9 Contingent Liabilities

The following contingent liabilities were outstanding at 31 December 1976:

	Bank		*Group*	
	1976	1975	**1976**	1975
Uncalled capital in respect of subsidiaries	**HK$ 13,893,621**	HK$ 21,963,216	**HK$ 17,801,162**	HK$ 21,963,216
Guarantees	**232,671,230**	282,742,800	**240,151,230**	310,651,045
	HK$246,564,851	HK$304,706,016	**HK$257,952,392**	HK$332,614,261

10 Outstanding Commitments

In addition to the engagements on behalf of customers shown in the balance sheets there are commitments in respect of forward exchange contracts.

11 Cash in hand and balances with other banks

Included in cash in hand and balances with other banks are deposits made by a subsidiary as required by UK and certain overseas Government regulations totalling HK$362,882,838 *(1975: HK$266,376,354).*

12 Quoted Investments

Included in investments quoted outside Hong Kong are investments of a subsidiary required to be deposited with overseas Central Banks totalling HK$39,923,986 *(1975: HK$25,691,083).*

Group Abbreviated Balance Sheets

The balance sheets of the principal subsidiary companies which follow on pages 20 to 30 do not include the explanatory notes and auditors' reports incorporated in the accounts of the companies concerned. They are presented solely as a simple abbreviated guide in a form appropriate to Hong Kong.

Mercantile Bank Limited

Balance Sheet at 31 December 1976

	1976 £ Sterling	1975 £ Sterling
Liabilities		
Capital: Authorised	**4,000,000**	4,000,000
Issued and fully paid	**2,940,000**	2,940,000
Reserves	**6,600,000**	6,500,000
Retained profits	**199,862**	181,022
	9,739,862	9,621,022
Currency notes in circulation	**3,706,511**	2,813,130
Current, deposit and other accounts	**119,262,713**	98,340,655
Proposed final dividend	**992,250**	786,450
Other current liabilities	**27,422,199**	16,289,488
Engagements on behalf of customers	**38,555,670**	26,206,714
	£199,679,205	£154,057,459
Assets		
Current Assets		
Cash in hand and at banks	**7,882,558**	5,047,332
Money at call and short notice	**3,331,992**	10,627,240
Treasury bills	**4,686,497**	4,589,699
Trade bills	**23,631,617**	18,683,721
Investments	**19,983,923**	15,774,053
Advances to customers and other accounts	**99,635,982**	71,134,743
Fixed assets		
Investments in subsidiary and fellow subsidiary companies	**33,363**	27,983
Bank premises	**1,937,603**	1,965,974
Liabilities of customers for engagements	**38,555,670**	26,206,714
	£199,679,205	£154,057,459

Profit and Loss Account for the year ended 31 December 1976

		1976	1975
Net profit		**1,294,840**	1,098,438
Balance brought forward from previous year		**181,022**	152,784
		1,475,862	1,251,222
Deduct: Transferred to Reserve Fund	**100,000**		100,000
Dividends paid and proposed	**1,176,000**	**1,276,000**	970,200
Balance carried forward		**£ 199,862**	£ 181,022

The British Bank of the Middle East and subsidiary companies

Balance Sheet at 31 December 1976

	1976 £ Sterling	1975 £ Sterling
Liabilities		
Capital: Authorised	**25,000,000**	25,000,000
Issued and fully paid	**20,000,000**	17,500,000
Reserves	**20,586,998**	18,984,067
Retained profits	**1,310,901**	884,127
	41,897,899	37,368,194
Current, deposit and other accounts	**1,492,508,367**	981,785,033
Amounts due to parent company	**31,005,224**	—
Amounts due to subsidiary company not consolidated	**2,182,311**	1,529,187
Minority interests	**190,390**	126,063
Proposed final dividend	**3,500,000**	500,000
Engagements on behalf of customers	**625,890,101**	451,467,104
	£2,197,174,292	£1,472,775,581
Assets		
Current Assets		
Cash and short term funds	**414,674,044**	342,483,065
Deposits with banks payable within 12 months	**247,576,367**	134,413,127
Trade bills discounted and certificates of deposit purchased	**135,388,133**	71,975,712
Investments	**15,563,199**	11,623,392
Advances to customers and other accounts	**725,642,175**	442,568,577
Balance of drafts, remittances etc. in transit	**11,211,110**	6,488,995
Fixed Assets		
Loan to Group associated company	**2,645,919**	2,225,712
Investment in associated company	**2,435,464**	1,972,024
Investment in subsidiary company not consolidated	**595,830**	422,861
Investment in fellow subsidiary	**296,790**	217,859
Bank premises	**15,255,160**	6,917,153
Liabilities of customers for engagements	**625,890,101**	451,467,104
	£2,197,174,292	£1,472,775,581

Profit and Loss Account for the year ended 31 December 1976

		1976	1975
Combined net profit		**4,926,774**	4,795,340
Balance brought forward from previous year		**884,127**	834,216
		5,810,901	5,629,556
Deduct: Transferred to Reserve Fund	**1,000,000**		1,245,429
Dividend	**3,500,000**	**4,500,000**	3,500,000
Balance carried forward		**£ 1,310,901**	£ 884,127

The Hongkong Bank of California and subsidiary companies

Balance Sheet at 31 December 1976

	1976 US Dollars	1975 US Dollars
Liabilities		
Capital: Authorised	10,000,000	10,000,000
Paid-in	10,000,000	10,000,000
Retained profits	953,250	630,359
	10,953,250	10,630,359
Deposits	132,966,598	119,022,924
Long-term notes payable	4,776,976	5,056,791
Due to parent company and its affiliates	2,573,065	3,114,289
Other liabilities	670,147	729,194
	$151,940,036	$138,553,557
Assets		
Current Assets		
Cash in hand and at banks	17,893,964	15,177,424
Trade bills	6,816,504	9,957,915
Investments	15,728,554	15,682,128
Advances to customers and other accounts	96,334,777	81,109,273
Other assets	2,921,025	4,327,798
Fixed Assets	12,245,212	12,299,019
	$151,940,036	$138,553,557

Profit and Loss Account for the year ended 31 December 1976

	1976 US Dollars	1975 US Dollars
Combined net profit (loss)	322,891	(629,237)
Balance brought forward from previous year	630,359	1,259,596
Balance carried forward	$ 953,250	$ 630,359

Hang Seng Bank Limited and subsidiary companies

Balance Sheet at 31 December 1976

	1976 Hong Kong Dollars	1975 Hong Kong Dollars
Liabilities		
Capital: Authorised	200,000,000	200,000,000
Issued and fully paid	165,000,000	132,000,000
Reserves	290,000,000	230,000,000
Retained profits	16,734,989	20,576,653
	471,734,989	382,576,653
Current, deposit and other accounts	7,141,570,465	5,871,229,130
Proposed final dividend	37,950,000	30,360,000
Engagements on behalf of customers	575,525,249	387,966,855
	$8,226,780,703	$6,672,132,638
Assets		
Current Assets		
Cash in hand and at banks	3,548,732,597	3,426,031,501
Trade bills	385,381,206	249,356,458
Investments	565,754,023	376,119,763
Advances to customers and other accounts	3,039,290,268	2,115,740,288
Fixed Assets		
Bank premises, furniture etc	112,097,360	116,917,773
Liabilities of customers for engagements	575,525,249	387,966,855
	$8,226,780,703	$6,672,132,638

Profit and Loss Account for the year ended 31 December 1976

		1976	1975
Net profit		119,646,378	91,062,401
Balance brought forward from previous year	20,576,653		
Prior year adjustment	961,958		
Transferred to General Reserve	(10,000,000)	11,538,611	14,394,252
		131,184,989	105,456,653
Deduct: Transferred to Reserve Fund	60,000,000		40,000,000
Dividends	54,450,000	114,450,000	44,880,000
Balance carried forward		$ 16,734,989	$ 20,576,653

Wardley Limited and subsidiary companies

Balance Sheet at 31 December 1976

	1976 Hong Kong Dollars	1975 Hong Kong Dollars
Liabilities		
Capital: Authorised	100,000,000	100,000,000
Issued and fully paid	100,000,000	100,000,000
Reserves	12,000,000	8,000,000
Retained profits	5,287,038	2,707,675
	117,287,038	110,707,675
Minority interests	27,325	1,240,627
Current, deposit and other accounts	635,330,503	544,910,564
Due to parent company	157,418,506	111,415,520
	$910,063,372	$768,274,386
Assets		
Current Assets		
Cash in hand and at bank	423,763,657	430,531,531
Investments	124,935,095	142,240,782
Advances	358,862,724	191,322,161
Fixed Assets	2,501,896	4,179,912
	$910,063,372	$768,274,386

Profit and Loss Account for the year ended 31 December 1976

		1976	1975
Net profit		30,910,504	25,751,721
Less: Interest of outside shareholders		331,141	352,391
		30,579,363	25,399,330
Balance brought forward from previous year		2,707,675	1,308,345
		33,287,038	26,707,675
Deduct: Transfer to General Reserve	4,000,000		4,000,000
Dividend paid	24,000,000	28,000,000	20,000,000
Balance carried forward		$ 5,287,038	$ 2,707,675

Wayfoong Finance Limited and subsidiary companies

Balance Sheet at 31 December 1976

	1976 Hong Kong Dollars	1975 Hong Kong Dollars
Liabilities		
Capital: Authorised	10,000,000	10,000,000
Issued and fully paid	10,000,000	10,000,000
Reserves	11,000,000	11,000,000
Retained profits	928,345	1,407,081
	21,928,345	22,407,081
Minority interest in subsidiary company	1,457,509	1,382,085
Fixed deposits and other accounts	368,247,912	357,350,128
	$391,633,766	$381,139,294
Assets		
Current Assets		
Cash balances	56,375,794	184,049,076
Balances outstanding under hire-purchase and other agreements	274,041,972	171,769,218
Investments	61,216,000	25,321,000
	$391,633,766	$381,139,294

Profit and Loss Account for the year ended 31 December 1976

	1976	1975
Net Profit	5,021,264	5,054,912
Balance brought forward from previous year	1,407,081	1,352,169
	6,428,345	6,407,081
Deduct: Dividend paid	5,500,000	5,000,000
Balance carried forward	$ 928,345	$ 1,407,081

Wayhong Investment Limited

Balance Sheet at 31 December 1976

	1976 Hong Kong Dollars	1975 Hong Kong Dollars
Liabilities		
Capital: Authorised	200,000,000	200,000,000
Issued and fully paid	200,000,000	200,000,000
Reserves	172,993,391	145,534,588
Retained profits	24,083	83
	373,017,474	345,534,671
Due to parent company	457,439,443	405,748,194
Other liabilities	8,000	112,570
	$830,464,917	$751,395,435
Assets		
Current Assets		
Investments	828,910,442	749,764,260
Other assets	1,554,475	1,631,175
	$830,464,917	$751,395,435

Profit and Loss Account for the year ended 31 December 1976

	1976	1975
Net profit	73,771,000	59,962,795
Balance brought forward from previous year	83	288
	73,771,083	59,963,083
Deduct: Dividend paid	73,747,000	59,963,000
Balance carried forward	$ 24,083	$ 83

Mortgage And Finance (Malaysia) Berhad

Balance Sheet at 31 December 1976

		1976 Malaysian Dollars	1975 Malaysian Dollars
Liabilities			
Capital: Authorised		50,000,000	50,000,000
Issued and fully paid		9,000,000	9,000,000
Reserves		9,000,000	7,000,000
Retained profits		1,462,280	1,757,817
		19,462,280	17,757,817
Fixed deposits and other accounts		211,485,908	191,220,651
		$230,948,188	$208,978,468
Assets			
Current Assets			
Cash in hand and at bank		10,907,865	11,080,571
Money at call and short notice		9,050,000	9,750,000
Government treasury bills		16,892,309	25,359,430
Investments		10,029,800	10,072,000
Balances outstanding under hire purchase and other agreements less unearned charges and provision for doubtful debts		183,666,305	152,403,889
Fixed Assets		401,909	312,578
		$230,948,188	$208,978,468

Profit and Loss Account for the year ended 31 December 1976

Net profit		5,204,463	3,067,058
Balance brought forward from previous year		1,757,817	1,690,759
		6,962,280	4,757,817
Deduct: Transferred to Reserve Fund	2,000,000		1,000,000
Dividend	3,500,000	5,500,000	2,000,000
Balance carried forward		$ 1,462,280	$ 1,757,817

Wayfoong Mortgage and Finance (Singapore) Limited

Balance Sheet at 31 December 1976

	1976 Singapore Dollars	1975 Singapore Dollars
Liabilities		
Capital: Authorised	20,000,000	20,000,000
Issued and fully paid	7,500,000	7,500,000
Reserves	2,800,000	2,500,000
Retained profits	81,954	66,042
	10,381,954	10,066,042
Fixed deposits and other accounts	77,494,250	58,201,133
	$ 87,876,204	$ 68,267,175
Assets		
Current Assets		
Cash in hand and at banks	30,371,849	21,927,860
Investments	4,795,126	2,271,236
Balances outstanding under hire purchase and other agreements less unearned charges and provision for doubtful debts	48,586,348	40,194,170
Fixed Assets	68,003	71,966
Deposit with monetary authority	4,054,878	3,801,943
	$ 87,876,204	$ 68,267,175

Profit and Loss Account for the year ended 31 December 1976

		1976	1975
Net profit		840,912	1,176,799
Balance brought forward from previous year		66,042	39,243
		906,954	1,216,042
Deduct: Transferred to Reserve Fund	300,000		400,000
Dividend	525,000	825,000	750,000
Balance carried forward		$ 81,954	$ 66,042

Wardley Australia Limited
and subsidiary companies

Balance Sheet at 31 December 1976

	1976 Australian Dollars	1975 Australian Dollars
Liabilities		
Capital: Authorised	**10,000,000**	10,000,000
Issued and fully paid	**10,000,000**	4,000,000
Reserves	**1,600,000**	1,600,000
Retained profits/(losses)	**(3,799,533)**	1,022,724
Shareholder's subordinated loan	**11,000,000**	7,000,000
	18,800,467	13,622,724
Current liabilities	**42,298,012**	48,751,788
Medium and long-term liabilities	**7,395,797**	7,239,000
	$68,494,276	$69,613,512
Assets		
Current Assets		
Cash in hand and at bank	**54,731**	81,611
Money at call and short notice	**5,942,000**	1,425,000
Advances and other accounts	**47,880,906**	54,670,090
Investments	**12,778,114**	11,500,987
Fixed Assets	**1,838,525**	1,935,824
	$68,494,276	$69,613,512

Profit and Loss Account for the year ended 31 December 1976

Net profit/(loss)	**(4,822,257)**	(4,834,072)
Balance brought forward from previous year	**1,022,724**	5,856,796
Balance carried forward	**($ 3,799,533)**	$ 1,022,724

Wardley Investments Canada Limited and subsidiary companies

Balance Sheet at 31 December 1976

	1976 Canadian Dollars	1975 Canadian Dollars
Liabilities		
Capital: Authorised	30,000,000	30,000,000
Issued and fully paid	2,500,000	2,500,000
Retained profits	1,594,299	1,130,580
	4,094,299	3,630,580
Minority interest in subsidiary company	1,645,553	1,546,576
Loan from The Hongkong and Shanghai Banking Corporation	2,831,970	2,831,970
Loans and other current liabilities	52,579,789	44,155,569
	$61,151,611	$52,164,695
Assets		
Current Assets		
Cash at bank	55,462	35,214
Investment in affiliated company	—	1,304,000
Excess of cost over book value of shares acquired in subsidiary company at date of acquisition	16,259	32,515
Finance receivables and other accounts	60,772,188	50,475,940
Fixed Assets	307,702	317,026
	$61,151,611	$52,164,695

Profit and Loss Account for the year ended 31 December 1976

	1976	1975
Net profit	463,719	366,427
Balance brought forward from previous year	1,130,580	764,153
Balance carried forward	$ 1,594,299	$ 1,130,580

The Hongkong and Shanghai Banking Corporation
Head Office: Hong Kong

Branches

Bahrain: Manama (OBU)

Brunei, State of: Bandar Seri Begawan (Main Office) and 2 branches

China: Shanghai

France: Paris

Germany: Hamburg and Frankfurt

Hong Kong: 1 Queen's Road Central (Main Office) and 144 branches

Indonesia: Jakarta (Main Office) and 1 branch

Japan: Tokyo (Main Office) and Osaka

Macau: Macau

Malaysia: *Peninsular Malaysia:* Kuala Lumpur (Main Office) and 26 branches
Sabah: Kota Kinabalu (Main Office) and 5 branches
Sarawak: Kuching (Main Office) and 2 branches

New Hebrides: Vila

Philippines: Manila (Main Office) and Iloilo

Singapore, Republic of: Collyer Quay (Main Office) and 9 branches

Solomon Islands: Honiara

Sri Lanka: Colombo

Thailand: Bangkok (Main Office) and 1 branch

United Kingdom: London (Main Office) and 1 branch, Manchester, Jersey, CI

USA: New York (Main Office) and 1 branch, Chicago and Seattle

The Group has Representative Offices in Seoul, South Korea; Sydney, Australia; Toronto and Vancouver, Canada; São Paulo, Brazil; trustee and nominee companies in Hong Kong, Jersey, Kuala Lumpur, London and Singapore and trustee companies in Calcutta and Guernsey.

Subsidiary Companies

The British Bank of the Middle East
Head and London City Office: 99 Bishopsgate, London EC2P 2LA and London West End Branch

Branches

Afars and Issas: Djibouti
Bahrain: Al Khalifa Road (Main Office) and 5 branches
India: Bombay
Jordan: Amman (Main Office) and 3 branches
Lebanon: Beirut and Tripoli
Oman: Muscat (Main Office) and 15 branches
Qatar: Doha (Main Office) and 1 branch
Saudi Arabia: Alkhobar, Dammam, Jeddah
Switzerland: Geneva
United Arab Emirates: Abu Dhabi, Ajman, Dubai, Fujairah, Ras al Khaimah, Sharjah, Umm al Quwain; 32 branches
United Kingdom: London (Main Office) and 1 branch
Yemen Arab Republic: Hodeidah, Ibb, Taiz

Mercantile Bank Limited
Head Office: 1 Queen's Road Central, Hong Kong
Registered Office: 99 Bishopsgate, London EC2P 2LA

Branches

Hong Kong: 7 Queen's Road Central
India: Bombay 7 branches, Calcutta 9 branches, Delhi, Madras, New Delhi, Visakhapatnam
Japan: Nagoya
Mauritius: Port Louis (Main Office) and 6 branches
Thailand: Bangkok 2 branches

The Hongkong Bank of California
Head Office: 180 Sansome Street, San Francisco, and 8 branches
Guam: Agaña

Hang Seng Bank Limited
Head Office: 77 Des Voeux Road Central, Hong Kong and 29 branches

continued on page 32

Subsidiary Companies *continued from page 31*

BC Facilities Limited, United Kingdom
99 Bishopsgate Limited, New Hebrides
The British Bank of the Lebanon, SAL
Carlingford Investments Limited, United Kingdom
Carlingford NH Limited
Far East Data Services Limited, Hong Kong
Gatechurch Property Management Limited, United Kingdom
Hang Seng Finance Limited, Hong Kong
Hang Tung Travel Service Limited, Hong Kong
Hongkong Bank Servicos Limitada, Brazil
Hongkong Finance Limited, Australia
The Hongkong and Shanghai Banking Corporation (CI) Limited
Hong Kong Middle East Holdings Limited, Hong Kong
Kellett (New Hebrides) Limited
Kellett Investments Limited, Hong Kong
MetWay Limited, Hong Kong
The Middle East Finance Company Limited, Dubai
Mortgage And Finance Limited, Brunei
Mortgage And Finance (Malaysia) Berhad
Perpetual Publicity Limited, Hong Kong
Pittencrieff Investments Limited, Hong Kong
Société Immobilière Atlas, Switzerland
Stanbridge Limited, New Hebrides
Wardley Australia Limited
Wardley Canada Limited
The Wardley Corporation, USA
Wardley (Exchange) Limited, Hong Kong
Wardley Finance (Thailand) Limited
Wardley Gibbs Limited, Hong Kong
Wardley Gibbs Agencies Limited, Hong Kong
Wardley Insurance Company Limited, Hong Kong
Wardley International Management Limited, Hong Kong
Wardley Investment Services Limited, Hong Kong
Wardley Investments Canada Limited
Wardley Investments Limited, New Hebrides
Wardley Investments (NZ) Limited
Wardley Limited, Hong Kong
Wardley Middle East Limited
Wardley Securities Limited, Hong Kong
Wardley Services (New Hebrides) Limited
Wardley (Vila) Limited
Wayfoong Credit Limited, Hong Kong
Wayfoong Finance Limited, Hong Kong
Wayfoong Investments Limited, Hong Kong
Wayfoong Mortgage and Finance (Singapore) Limited
Wayhong Holdings Limited, New Hebrides
Wayhong Investment Limited, Hong Kong
Wayhong NH Limited, New Hebrides
Wayhong Properties Limited, New Hebrides

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The Bank of Iran and the Middle East
Banking Computer Services Private Limited, Singapore
Benteng Redevelopment Sdn Bhd, Malaysia
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Cathay Pacific Airways Limited, Hong Kong
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Growth and the Environment: the need for restraint

It often seems to those who dwell in cities, engaged in office or factory work, that the conditions in which they live are man-made and that if these conditions are not ideal this must be the result of wrong choices resulting from lack of knowledge, or stupidity, or selfish interest. There are, however, few perfect solutions for human problems and many of those of which people now complain stem from attempts to resolve what were seen earlier as unacceptable conditions – the history of planning is full of solutions, such as high blocks of flats for families with small children, which have come to be thought disastrous. Change is often for the worse and yet many of the things we now most want to conserve were the outcome of earlier change. What matters is that change should be made with caution, always avoiding the closing of options for the future.

The world is not man-made, but the landscape in a well populated country owes a lot to human activity. This is obvious where irrigated paddy is the chief crop, but is equally so in England, where enclosed fields and hedgerows, individual trees and copses are there because someone has, in quite recent times, put them there – mediaeval England had much more forest, with open fields around individual manors, while there is now a tendency to remove hedges because they are costly to maintain and machine cultivation is easier in large fields. Nevertheless the world is a finely balanced and delicate organism which imposes limits on man's activities and on his numbers; pressure of population is a principal cause of deteriorating conditions of life.

All the free oxygen on which animal life depends was created by plants by photosynthesis from carbon dioxide and sunlight. Oxygen supply has slightly exceeded consumption, but the burning of fossil fuels consumes oxygen, while adding carbon dioxide. Plants take up some of this extra carbon dioxide, but even so the proportion in the atmosphere increases, trapping heat and warming the earth. Combustion also produces noxious fumes which harm plant life and works of art alike; forests in Sweden are harmed by sulphuric acid in rain, as are the Taj Mahal and murals in northern Italy. Dust from combustion and industrial processes such as quarrying and cement making are both directly harmful and, with the vast quantities produced by volcanic eruptions and wind erosion, screen off the sun's heat. The warming effect of carbon dioxide may of course balance the cooling effect of dust, but it would be wise to try to minimise the risk from dust, since a drop of under 4 degrees Fahrenheit in mean annual temperatures may be enough to start a new ice age.

There are other forms of pollution. Power generation and many industries produce effluents or changes of condition, such as the warming of water, which can be harmful. Bad mining, farming or forestry practices poison rivers and coastal waters or cause silting, while untreated sewage can, by using up oxygen in the process of degeneration, destroy fisheries and seriously harm aquatic life. While irrigation can increase agricultural output, it can also turn land which earlier produced food into saline waste. Squeezing more out of the land than climatic and soil conditions permit does immense damage; after the 1975 Soviet harvest a Russian journal attacked incautious attempts to force up output which had resulted in waste of resources and effort, erosion, destruction of good land and poor crops. Over-grazing will also lead to the loss of both output and resources – there is an optimum level which if exceeded will give better results briefly, but in the long run will produce lower output and sometimes a desert. Monocrop arable culture can do the same, as can elimination of apparently uneconomic plant species, which might in due course have passed on genes giving resistance to pests or disease.

Most forms of pollution can ultimately be shown to cause serious economic loss, although reduction of agricultural fertility may be gradual. In East Anglia grubbing out of hedges seemed initially to give higher yields at lower cost and damage from loss of beneficial bird and insect life and of wind protection was not at first apparent. Indiscriminate use of insecticides such as DDT in some Asian countries initially produces better results, but has damaging long-term effects – the build-up of chemicals to critical levels is often unobserved until too late. Visual and noise pollution is less easy to quantify in economic terms, the first being very much a matter of taste. In rural areas good long-term farming practice is usually more visually satisfying than poor, while in towns buildings on a scale not too remote from man are psychologically more comfortable. Central London was certainly more attractive when only special buildings such as St Paul's were allowed to rise above the height of a tall tree – some modern buildings indeed seem designed to repel or intimidate.

Much pollution derives from production of power and heat. Until the development of nuclear energy, which itself creates great and uncertain dangers, virtually every type of power used by man had its origin in the sun. In earlier times whole forests were destroyed to provide charcoal for iron smelting. Coal, gas and oil, which have since provided power for industrial society, may be exhausted in 200 years or so. These so-called fossil fuels have valuable alternative uses as raw materials and their combustion is often both highly polluting

Cows in an English meadow almost merging into fleecy summer clouds represent for Anna Pugh the elements, sunlight, rain, plants and animals, which interact together to sustain the delicate balance of life.

and remarkably inefficient. Single-purpose power stations may use only a third of the potential energy in their fuel and much of this will then be wasted in ill-insulated houses and offices. The effects of fossil fuel combustion can be modified. Use of residual heat in district heating systems can more than double the efficiency of power stations and, by requiring smaller plants placed where the heat is needed, can reduce unsightly networks of power lines; perhaps district cooling systems are also capable of development for the tropics. Exhaust fumes from power stations and most effluents can be cleaned or recycled or reduced by more efficient use.

Much atmospheric pollution by the internal combustion engine, another user of fossil fuel, can be prevented by technical means, although these sometimes increase fuel consumption. The general impact of the motor car is more difficult to deal with. Huge swathes of countryside are eaten up by roads, the appearance of cities is ruined by flyovers and elevated roadways and streets are choked with traffic whose needs have priority over those of the basic user, the pedestrian. Cities built around the car, such as Los Angeles, are suffocated by photochemical fog produced by their exhausts; Los Angeles and San Francisco are said to consume as much petrol as the whole United Kingdom. The internal combustion engine also by its noise greatly degrades city life. There is legitimate complaint at the din made by jet aircraft, especially by those who live under the approaches to airports, but it is possible to stand by a busy road and be unaware of the passage low overhead of a jet aircraft. With all these disadvantages road vehicles using internal combustion engines will dominate passenger and goods traffic so long as their immediate cost is relatively cheap.

There are alternatives. Rail makes less use of fuel and space and, although trains can be noisy, this can be remedied if there is the incentive. The Japanese, faced with protests against conventional high speed trains, claim to have developed an even faster train, driven by linear induction motors, which floats silently and without vibration on a magnetic cushion, and, once the initial investment has been made, has competitive operating costs. Research into batteries and electric engines for road vehicles has been stimulated by the 1973 oil price rises. It is also possible to induce reduced use and increased efficiency in motor vehicles by raising the fuel costs, improving the quality of public transport and reorganising settlement patterns so that fewer people use a car to reach their jobs. Oil and gas prices in North America are controlled at levels which encourage overheated buildings and wasteful cars. Higher petrol prices and taxes in Europe have induced smaller and more efficient cars and the process should perhaps be carried to the point where reduced traffic congestion and increased demand make it easier and economic to provide really efficient public transport services.

In Asia, people stream into bloated slum cities seeking work. Some governments send them back to the villages and spread industrial activity into smaller centres. In western countries people and industries move out of the great cities and planners worry about poor families stranded in dying areas, which have often been created because unwise rebuilding and zoning has banished the small workshops and factories which provided work around the corner. In Britain much early industry started in villages and there are signs of a tendency for industry to return to rural areas – with television, the telephone and modern services villages and country towns are more attractive than they were. In many prosperous countries such as Switzerland or Sweden industry has always been well spread out. Where massive cities do exist the encouragement of regional centres can reduce the pull to the metropolis, while within it district centres with jobs, homes and amenities can make it more habitable. This spreading of jobs reduces the daily commuter flood and may even generate sufficient reverse flow to make public transport more economic. District and city centres need to include parks, gardens and streets designed for pedestrians so that they are pleasant places for a Sunday stroll. The mass weekend flight from cities causes both energy consumption and damage to the countryside and park's in city centres are of far greater value than immediate financial considerations would suggest.

It may be argued that only prosperous countries can afford to concern themselves with these problems. There seems no reason, however, why poorer countries should not learn from the mistakes of others and so avoid future difficulties. Haste does not always bring even short-term benefit and in some other ways developing countries themselves insist on taking slow paths to development, a notable example being the passion for large-scale heavy industry when light industries give quicker returns, and in the process generate much less pollution. Fortunately the belief that concern with the environment is irrelevant is not held in India, Malaysia and several other Asian countries. Standards will of course vary and, since in some cases the inadequacy or otherwise of conditions, visual and even physical, are matters of taste or habit and remediable if attitudes change, this perhaps is not greatly important. What does matter is that people should be aware that such problems exist and that they may do irreparable damage if ignored.

The end of an era which had seen the establishment of a new style of regime in Peking determined not merely to restore China to a pre-eminent place in the world, but also to make fundamental changes in society, was marked by the successive deaths within months of the three most prominent leaders of the older generation, Premier Chou En-lai, Marshal Chu Teh and finally Chairman Mao Tse-tung himself. It seemed probable that the new Chinese leadership would wish to consolidate the gains of the revolution, to resolve the practical problems which tend to be overlooked in the exhilarating rush to make radical changes and to settle China down to the long and arduous, but essential, tasks of extending and broadening the start that had already been made with the modernisation of the economy and with securing and accelerating the general improvement of the living standards of over a fifth of the population of the earth.

Readjustment to a less hectic rate of economic progress and a longer steadier haul seemed also to have begun elsewhere in eastern Asia. The recovery of Japan from the political and economic disasters of the 1930s and early 1940s had made the second half of the Showa reign, whose 50th anniversary was celebrated in November, indeed a period of 'enlightened peace'. High economic growth, achieved by hard work and well-organised united effort, had given Japan the third highest domestic product in the world, despite a homeland endowed with singularly poor natural resources; Japan is a standing illustration of the truth that wealth is created by the ingenuity and effort of enterprising men and does not exist of itself waiting merely to be justly distributed by the righteous. But as the supply of manufactured goods available to them reached levels comparable with the world's most productive nations the Japanese people, as has happened elsewhere, had begun to see future improvement a little less in ever higher rates of industrial production and rather more in aspects of the quality of life which are not recorded in the statistics.

The rates of economic growth earlier achieved by Japan are almost certainly not sustainable indefinitely, both because of physical limitations and because consumers become sated, and a process of change was begun to more moderate and perhaps steadier growth. It seemed probable also that some of the smaller and even faster growing economies in the region must expect progress which was a little less rapid than in the past, although still substantial, and that this more deliberate pace might require adjustments in the style and attitudes of businessmen. Changes in economic attitudes were not confined to the Far East. Throughout the industrialised western world there were increasing doubts about the obsession with high rates of growth and the excessive or inappropriate use of economic stimuli to achieve them and some evidence that these stimuli no longer always produced the effect anticipated, since ordinary wage earners and consumers had begun to expect inflation and recession to follow a boom and so to be more cautious about spending when the economy turned upwards.

Political adjustments to the changing roles of the United States and other powers continued. Indications that military aid to the Republic of Korea might be reduced or American troops be withdrawn caused considerable concern not only in South Korea, whose forces are, however, expected within a year or two to be more powerful than those of North Korea, but also in Japan which regards the defence of South Korea as crucial to its own safety. Further south the announcement in May that a Swedish-Filipino consortium had begun drilling for oil on the Reed Bank provoked reaffirmations from Peking, Saigon and Taipei of claims to the Spratly Island Group, which covers a large area in the South China Sea north and west of Palawan in the Philippines and Sabah and Sarawak in Malaysia. The last Seato exercise, concerned with community projects in Luzon, ended on 20 February. It was intended that some Seato civil projects, such as a medical research laboratory engaged in work on tropical diseases, should continue in being. The Manila Treaty itself was to remain in force and would still constitute a formal link between the United States and the defence of Thailand and the Philippines. Steps were, however, taken to renegotiate the bilateral treaty which constituted the main American commitment to the defence of the Philippines.

Fierce criticism of the Association of South East Asian Nations, and in particular of Thailand, by the Vietnamese and Laotian regimes in the earlier part of the year, culminating in a verbal assault at the Non-Aligned Conference in Colombo in August on the proposal for a 'zone of peace, freedom and neutrality' originally put forward by Malaysia, helped to consolidate Asean. Officials, foreign ministers and heads of government of the five members met in Bali in February and signed a Treaty of Amity and Cooperation and a Concord. These devoted attention mainly to economic cooperation, but also referred to conciliation of disputes amongst members and to security, which attracted somewhat greater interest. Economic ministers met in March and agreed to make feasibility studies of a number of large-scale industrial plants, distributed amongst the member states, which could provide local supplies for the whole Asean market. The products selected were nitrogenous fertiliser in Indonesia and Malaysia,

superphosphate fertiliser in the Philippines, diesel engines in Singapore and soda-ash in Thailand. Projects such as petrochemical and integrated steel plants, which were more likely to arouse economic nationalist feelings, were left for the future. There seemed to be some progress towards preferential trade, another sensitive subject, including arrangements for giving other members priority when goods in glut or short supply were to be bought or sold, with rice and mineral oil as the first commodities to be covered.

China indicated approval of the zone of peace proposal and of the steps towards strengthening economic cooperation made within Asean, while continuing sharply to criticise renewed Soviet advocacy, notably by Mr Gromyko during a visit to Japan in January, of a collective security pact; the Japanese Prime Minister dismissed the Russian proposal as unnecessary. The Vietnamese seemed to have become aware that their open antipathy towards Asean merely provoked greater cohesion amongst its members and tried in July to give a less hostile impression. They spoke of a willingness to develop friendship and cooperation based on principles, which included respect for territorial integrity, non-interference in internal affairs and an end to the use of territory for intervention in other countries in South East Asia, and a deputy foreign minister made a round of visits to neighbouring states.

Fear of 'ideological expansionism' aroused by the argument that Vietnam did not consider states with 'imperialist military bases and troops on their territories' as being 'independent, peaceful and genuinely neutral' was stimulated again in August by official statements that the Vietnamese would 'contribute to the common revolutionary cause of the peoples in South East Asia' and would in particular 'fully support the Thai people's just struggle'. These attitudes, and increased activity by communist insurgents in Burma, Thailand and Malaysia, provoked such public reactions as that of the Prime Minister of Singapore who expressed the view to the Non-Aligned Conference that no pretext whatever could justify interference in the internal affairs of other states. They may also have contributed to the collapse of the new Thai attempt to operate a parliamentary democratic system, since many Thais clearly felt that the lack of decisiveness of such a system, however desirable it might be in other ways, could not be tolerated in face of a militarily powerful, apparently hostile and perhaps aggressive neighbour. Although a public commitment to democratic methods was widely maintained and genuine elections were held in several countries, there was in most of the region a further tendency towards firm and less open government. In the social field there was again a striking decline in violent crime in Japan, Hong Kong and Singapore.

The change in July to a somewhat more conciliatory attitude did not seem to be entirely a matter of political tactics on the part of the Vietnamese. It was evident that they took a pragmatic view of economic relations with non-Communist countries and may have wished not to remain too dependent on the two powers which had provided them with the economic and military means to fight the war. Moreover the northern victory had resulted in an end to the flow of external aid to the south, a sharp drop in that to the north and severe economic and political problems. North Vietnam, which had relied on food imports, had a disappointing harvest, while South Vietnamese agriculture, while capable of producing a substantial surplus, had lost its sources of supply of fertilisers, pesticides, fuel and spares for irrigation pumps and other farm machinery. Northern industry had suffered much damage and southern, mainly producing consumer goods, was without raw materials and components and short of energy. Instead of having acquired a territory which could supply the north with food, raw materials and capital, the regime had to cope with shortages, inflation, idle factories and massive unemployment in the southern cities.

The position was made worse by the loss of a high proportion of managers, technicians and other trained people, either abroad or into 're-education' camps, and a sharp fall in standards of management and administration. Thousands of North Vietnamese officials were brought in to run the south, but many of them, to judge from official complaints, rapidly became corrupted by a taste for the consumer society; people in the south had in the view of the Communist Party leadership 'attained a living standard much too high for the country's economy'. These problems were partly dealt with by moving large numbers of people from the cities out into uncultivated areas to produce food. Officials, however, seemed in two minds as to whether it might not be wise to make use of the 'positive ... aspects of domestic capitalist management' and the regime hinted that it might be willing, in the short term at least, to make some use of foreign, including American, capital, management and technology in order to revive and expand the economy. This was so of the search for oil in deep offshore waters and even to the running of modern industries. The Japanese especially clearly believed that this attitude provided profitable opportunities for business in Vietnam.

There was some armed resistance in Vietnam. In Laos resistance was widespread and, in some

The shadow of a new supersonic airliner on a small house in a peaceful English upland symbolises for Nigel Holmes the threat that man's ingenuity can present unless used with moderation and care.

areas at least, effective. The regime had lost much public support as a result of the introduction of austerity measures to increase the resources available to it and of the mistreatment of people by the armed forces. As in Vietnam trained people had fled the country in large numbers and still continued to do so. The Prime Minister said in a report in June that 'famine, poverty, epidemics, unemployment, inflation, a lowering of production, economic recession and price rises' were prevalent, although an easing of controls in August produced somewhat better food supplies. Official policy was to seek self-sufficiency in food and to earn foreign exchange by exporting forest products. It was also intended to strengthen and extend communications links with Vietnam which retained armed forces in Laos. Cambodia remained independent of Vietnam and indeed, so far as could be judged, of any outside influence and the regime continued to treat the people under its control with extraordinary rigour. It seemed itself to have eliminated anyone with education or training and positively to seek a subsistence economy without currency in which people had neither home nor identity. The capital appeared still to be empty, except for officials, soldiers and some Chinese technicians. The regime showed some signs of wishing to extend its contacts abroad, but there were frequent incidents along the Thai border.

Burma had for years suffered from insurgency, especially along its borders with Laos and China, and from a depressed economy. There had for some time been hints that a revival of the private sector might be permitted, but the bureaucratic vested interests which seem to be inherent in socialist economies had prevented any serious departure from 'the Burmese Road to Socialism'. These hints grew stronger during the year. An official report outlined the failings of state corporations and an effort was made to reorganise them in order to reduce corruption, smuggling and the black market which played an increasing part in supplying the ordinary consumer. Another study attributed poor agricultural results to the effects of land reform and of lack of incentives and improved techniques. The finance minister announced a greater reliance on market forces in April and in October the second Party Congress was wound up in order to enable a new Congress to adopt new policies to deal with 'deteriorating economic, social and political conditions'. U Ne Win himself spoke of the need for change and there were suggestions that some use might be made of foreign technical and financial assistance.

The new regime in Bangladesh led by the army commander, Major General Zia ur Rahman, reversed the previous policy of relying entirely on public corporations and began to encourage

private investment. It was greatly helped by an exceptionally good winter rice crop and much improved wheat and jute output. Bangladesh has a population of some 1,500 people per square mile, but much of the land is alluvial and could produce substantially higher yields with better organisation and techniques. In an effort to reduce a population growth rate of about 3 per cent a year a vigorous family planning programme was launched. Smuggling of jute and rice to India was checked, while manufacture of jute products revived, as did building activity. General Zia began to remove the political restraints introduced by the previous regime and to try to reduce inefficiency and corruption in the administration. It had been intended to hold elections for a national assembly, but these were postponed indefinitely in November, partly because of widespread popular doubts about the wisdom of endangering the achievements of the regime, and provision was made instead for elections to district councils.

Bangladesh's relations with Pakistan improved greatly and efforts were made to develop mutual trade, to revive Pakistani investment in Bangladesh and to reintegrate into the economy the non-Bengali Muslims, commonly known as Biharis, who had played an important role in the economy before 1972, often in connection with Pakistani investment. These renewed ties were not welcome in India, with which relations deteriorated, giving rise to complaints of Indian support for incursions across the border and diversion of Ganges water at the Farakka barrage. Pakistan's relations with India on the other hand improved considerably, ambassadors were exchanged and trade and communications were revived; relations with Afghanistan also eased. Wheat, rice and sugar crops increased substantially, but the year in Pakistan, as indeed in most of South Asia, was largely devoted to preparations for elections in 1977.

The UN Law of the Sea Conference made little apparent progress, in part because of a wish to see if American policy on the sensitive issue of deep-sea mining might change under a new President. Other subjects discussed were the scope of national jurisdictions and freedom of scientific research in offshore economic zones, the rights of states with little or no coastline and methods of settling disputes. Meanwhile there was a tendency to pre-empt conference decisions, in particular by extending fishery zones. Both the USA and the USSR claimed 200 nautical mile fishing limits and Japan seemed likely to suffer a further restriction of catches. Indonesian and Malaysian claims to jurisdiction over the Straits of Malacca, regarded by maritime nations as an international waterway, remained unresolved, but new charts made navigation easier and navigational aids were improved in the deeper Lombok and Macassar Straits passage. The reopening and improvement of the Suez Canal shortened the Europe-Far East run by a fifth and made 500,000 tons of shipping redundant.

The Colombo Plan celebrated its twenty-fifth anniversary on 1 July. It was started by Commonwealth countries, now has 27 members in, or interested in, the region and has performed the useful function of bringing states together to see how they can help each other, especially in the technical field. The Secretary General of the UN Economic and Social Commission for Asia and the Pacific called at its 1976 session for it to emphasise action, to be selective and to concentrate on food, energy, technology, raw materials and external financial resources. The session mainly discussed rural development, but also approved plans to set up an Asia-Pacific Telecommunity, which was joined by amongst others China and India. The Bangkok Agreement to liberalise regional trade came into force in June and some minor mutual tariff preferences were exchanged. The UN undertook to keep the Mekong Committee going and the Laotians expressed interest in continuation of the Nam Ngum project and permitted the Committee to set up flow measuring equipment on the Nam Theun River.

The Asian Development Bank sought to replenish its concessionary loan funds and approved an increase of about US$5,000 million in its authorised capital. Vietnam and Laos were represented at its annual meeting; both expressed interest in loans, and the Laotians spoke of welcoming a mission to evaluate their development plans. The OECD countries continued to distribute substantial aid, and the Opec countries set up an aid fund, but there was concern over the debt burden being built up and a tendency to want aid to be given with more discrimination and to question the effect of financial assistance on the determination of recipient countries seriously to tackle their own problems. Similar doubts were expressed also about the tendency of some countries, both developing and developed, to build up huge foreign debts, from private as well as public sources, to postpone the need to cut trade and budget deficits.

Hong Kong

Up to June domestic exports were half as much again as 12 months earlier and in the following months still a third above the second half of 1975. Over the year they grew by 42.7 per cent in value and by 30 per cent in quantity. Imports rose by 29 per cent and re-exports by 28 per cent – imports were worth some US$8,870 million and total

exports, a fifth of which were re-exports, US$8,515 million. Terms of trade improved by over 6 per cent, but began to decline in the winter. If net imports of US$420 million worth of gold bullion are added, as against 1975 net exports of US$215 million, imports rose 34 per cent to US$9,340 million and exports 33 per cent to US$8,565 million. The official visible trade deficit, excluding bullion, was more than halved and if exports and imports had been recorded on a comparable basis might even have vanished – including bullion it was 47 per cent greater. Tourist visitors rose by a fifth to 1,559,977 and spent some US$655 million – this is increasingly balanced by spending by tourists from Hong Kong who paid 1.7 million visits to Macao, 836,000 to China and 505,000 to other countries. Net foreign earnings from services, including tourism, recovered a little to over US$350 million.

Growth of exports was largely to the industrial countries. The United States, Canada and continental western Europe except Germany increased purchases by over half, Japan by little less, West Germany, exports to which had steadily grown during the recession, by two fifths and Australia by almost a third. Sales to the United Kingdom, the largest customer after the US and West Germany, rose by under a fifth in Hong Kong dollar terms. Western Europe and the US each took about 35 per cent of the total, with Japan, Canada and Australia sharing a further 13 per cent almost equally. Asia other than Japan, which, led by Singapore, was the largest remaining market, increased purchases by a third. Of minor markets Africa moved hardly at all. Exports to the Middle East rose by half, and to Kuwait and several other states doubled, while those to Latin America and Eastern Europe grew considerably from a small base.

Clothing sales, which rose by two fifths, again dominated exports. During the recession they had sustained total earnings by continuing to grow, but in 1976 they began to return to a more normal share of exports, 40 per cent in the fourth quarter instead of 46 per cent in the first. The speed with which they spot potential demand and adjust to changes in fashion is one of the great strengths of Hong Kong manufacturers. Demand for denim, having led growth in 1975, fell back except for better qualities, but sales of cotton outerwear and some other lines increased greatly. In electronics transistor radios, cassette recorders and radios, and many other products and components sold well, but the market, in North America at least, for pocket calculators, of which Hong Kong exported 8.6 million in 1976, seemed saturated. Some firms, however, had already started production of digital watches and attained high output and sales. Plastic products did well, as did cotton fabrics early in the year, cameras, handbags and travel goods, and minor items such as seafood, lamps and light fittings, hand tools and products of ivory and rattan. For clothing, toys and torches Hong Kong was claimed to be the world's largest exporter and in several others the second or third largest.

Over a quarter of re-exports came from China and as much was shared between the United States and Japan. Those from China were mainly textiles such as table damasks, plants and seeds, clothing and foodstuffs for overseas Chinese communities, the United States and Japan. American re-exports included jewels, most of which returned to the US, and electrical machinery and medicines for East and Southeast Asia. Watches predominated amongst Japanese goods, as well as instruments, electronics and machinery for Southeast Asia, the US and elsewhere. Other sources included the main European and East Asian exporting countries and Brazil, whose sales through Hong Kong, mostly of coffee to Japan, quadrupled. Goods for re-export from South Korea and India increased by more than half, while countries making lesser, but sharply increased, use of Hong Kong were the USSR, Pakistan, Canada, Malaysia and the Argentine.

Imports of materials and semi-manufactures increased by two fifths in value, to 44 per cent of the total, and of fuels, consumer goods and capital goods by a quarter, while rice supplies again cost less. Retained purchases of industrial machinery rose by 47.3 per cent. Imports from Japan, the United States and Singapore increased by a third apiece, from Taiwan by over half and from South Korea by three-quarters, while at a lower level those from India more than doubled. Supplies from China cost only 14 per cent more, despite a rise to 13 per cent in their share of the market for petroleum products. British sales grew by under 7 per cent in Hong Kong dollar terms and actually declined up to June, after which a sharply devalued currency provided some stimulus. British firms secured a large share of contracts for the Mass Transit Railway. For historical and other reasons Britain still has a slight non-economic advantage in the Hong Kong market, but its share has steadily declined – it had a surplus up to 1961 and trade was then roughly balanced for some years, but in 1976 British sales were little over half the value of purchases.

Hong Kong products are under 3 per cent of all imports into Australia, Singapore and the US, and below 1.5 per cent into Britain and West Germany and 1 per cent into other major markets. Despite recession protectionist sentiment was in general resisted. An exception was Canada which on 29 November imposed a ban on clothing imports beyond the depressed 1975 level on a global quota


inside
soccer
News
News

Demolition of pleasant old London houses seems to Alan Manham to be foreshadowed in the cold reflection of a modern block. Coming from overseas he can perhaps better appreciate what may be thoughtlessly lost.

basis, so limiting 1977 imports to below 1975 and breaking bilateral agreements – most Canadian clothing is made in Quebec Province where the political situation makes the federal government very sensitive to clothing industry claims. More worrying than the immediate restrain was the precedent for the renegotiation of the GATT Multi-Fibre Arrangement. The United States also displayed a rather stiffer attitude, as did the EEC, although the European Commission proposed that Hong Kong should benefit in 1977 from the textile provisions of the EEC generalised system of preferences, while France lifted restraints on several local products.

Successful new or recent electronics products included colour television sets, magnetic tape to supply rapidly growing cassette production, and a two way pocket transceiver. The industrial estate at Taipo progressed, there were site investigations for another at Yuen Long and additions to heavier industries established on Tsing Yi included ship repairing and industrial machinery by concerns representing China, and chlorine, caustic soda and hydrogen by British interests, while an American polystyrene plant began production. The first hydrofoil and fibreglass trawlers to be locally built were launched. The growing local market for manufactures, consumer products as well as producer and capital goods, again attracted both local manufacturers and foreign investors.

The value of foreign investment lies rather in techniques, and design, managerial and marketing skills, than capital. Cumulative direct foreign investment in industry in Hong Kong is about US$400 million. Hong Kong cumulative direct investment in Indonesia alone in the past decade now exceeds US$650 million and there is a large outward flow to Asia and elsewhere. Savings deposits rose by 24.5 per cent and total deposits by 21.2 per cent. By December there were 74 licensed banks operating branches and 93 with representative offices, as well as 179 finance companies. Loans and advances abroad and amounts due from banks abroad were two-fifths above amounts due to banks abroad. The use of Hong Kong as a base for financial and marketing operations in the region grew, helped by the steady strength of the Hong Kong dollar, which rose by 6.5 per cent against a trade weighted average of the currencies of major trading partners. New facilities included a growing bond market and a proposed commodities exchange which was to start with a cotton futures contract.

Domestic export shipments by air grew in value by nearly a third to 22.2 per cent of the total, three quarters being clothing, electronic and electrical goods, and watches. Total volume rose by over 15 per cent to 163,235 tons. A terminal to handle

500,000 tons of air freight a year was opened, the runway extension to 11,130 feet and an advanced radar system came into use and progress was made with extending the passenger terminal, which had 4,184,287 passengers, a growth of 16 per cent. The rate of expansion and constraints imposed by a single runway and a site in the middle of a crowded city induced discussion of a new airport, possibly on Chek Lap Kok Island, north of Lantau. The local airline, Cathay Pacific, extended its services to Bahrain and Melbourne.

Laying was begun of a high-capacity cable to Luzon and Okinawa to link with the trans-Pacific cable to Guam, Hawaii and the United States and satellite communication capacity was enlarged. Container traffic grew by 29 per cent, and a fifth berth was brought into use with a sixth on the way. In cargo handled Kwai Chung is one of the three or four largest container ports in the world. Hong Kong also has one of the two or three largest merchant shipping fleets; local interests own or control over 40 million tons deadweight. An extension of the Kowloon-Canton Railway to Kwai Chung to handle container traffic from China was considered, as were electrification, double-tracking to the frontier and better commuter facilities, including re-extension to Tsim Sha Tsui and more interchanges with the underground Mass Transit Railway. Progress was made with one interchange station, a marshalling yard for China goods traffic and double-tracking to Shatin.

Work on stations for the initial Mass Transit Railway system proceeded and the viability of a branch line to Tsuen Wan was investigated. The highway linking Kwun Tong with Tsuen Wan came into use and its extension to Tuen Mun made progress, while, on the Island, preparations were made for construction of the road tunnel link with Aberdeen. A comprehensive transport study suggested further large expenditure on roads and railways and restricting car use by raising its cost. Numbers of private cars and motor cycles fell until September, but then began to revive. Commercial vehicles increased by 16 per cent and bus traffic by 14 per cent. Ferry traffic fell again, but was thought to have steadied, and the Tramways lost a fifth of their traffic in the winter, but later recovered most of it.

During 1976/77 two fifths of public spending, which does not include expenditure from the Housing Authority's resources, went on social services and a fifth on community services such as water supply. The proportion spent on general services was raised to a fifth by efforts to bring the police force up to strength and to modernise its methods. The result in 1976, combined with greater public support, was to reduce violent crime by over a tenth and robberies by a fifth. The programme to thin out the existing cities and concentrate growth in the New Territories, with new towns at Tsuen Wan, Shatin and Tuen Mun and lesser centres elsewhere, progressed rapidly. These new towns are intended to be well-balanced. Shatin is to have public housing estates for 300,000 people with community centres, shopping facilities and playgrounds, sites for private housing and light industry, a district teaching hospital, a polytechnic, a teacher's training college, two technical institutes, 45 primary and 41 secondary schools, public gardens, a sports stadium, a racecourse and a country park, with improved commuter railway services to Kowloon and, within the town, priority for buses and a footpath and cycle track system. It is hoped that two fifths of the population will live in the New Territories within a decade.

Efforts were made to speed up the existing housing programme, including replacing or converting older estates, with a view to providing rented housing for 770,000 people over four years. The government expected private building to house around a further 100,000 people a year and itself began to build flats for sale at cost to those with limited incomes. The date for providing nine years of education for all children was brought forward to 1978, to be achieved by building 35 secondary schools in two years, converting some surplus primary schools, using existing buildings more intensively and buying places in private schools; fee assistance available to private secondary school pupils was also raised and educational television was extended to secondary schools. Student numbers at the Polytechnic and, less rapidly, the two universities expanded and the building of more technical institutes progressed.

A new regional hospital in Kowloon came fully into use during the year, bringing total provision to 19,270 beds and leaving a shortfall of about 900 general and 2,700 psychiatric beds. Work was begun on a 1,300 bed psychiatric wing to the new hospital and it was proposed to build two and probably three new regional hospitals. Further additions were completed or begun to the network of clinics and health centres, including a training school for dental nurses, and infant mortality fell again, to 14.3 per thousand live births. A second medical school, at the Chinese University, should eventually reduce the shortage of registered doctors, but meanwhile steps were taken to hold examinations to licence successful unregistered doctors. Existing hospital facilities were to be reorganised to permit more even use and the government started discussion of rehabilitation services for the disabled and extension of special education facilities.

The High Island reservoir, designed to hold

60,000 million gallons, neared completion, the regular annual supply from China was raised to 24,000 million gallons and the pilot desalting plant again produced 1,600 million gallons. Water consumption, having been stable for three years, grew by 12 per cent to 89,099 million gallons. Gas and electricity consumption rose by 17.52 and 13.25 per cent respectively. More generating and transmission capacity was installed, while consideration was given to possible methods of meeting future demand, including jointly owned bulk power supply and pumped storage, nuclear and combined electricity and desalting plants. Cement production rose by a third and building capacity expanded. Nevertheless, since extensive road, railway and other works were already making large calls on construction capacity, while private developers planned to expand house and factory building well beyond the economic growth rate, there seemed a danger that physical resources might be overstrained if several government programmes were accelerated at the same time.

Further steps to improve working conditions included regulations to eliminate permitted overtime for 16 and 17 year olds in annual stages, to raise the statutory minimum of rest days and to extend public assistance to provide a form of unemployment benefit. The health of the economy nevertheless had priority. The basic working class price index average rose only 3.4 per cent and by September industrial wages had in real terms risen 12 per cent over 12 months and 15.5 per cent over 18 months. GDP grew in real terms by 16 per cent. Much of this, however, resulted from taking up the slack in the economy. Average annual growth from 1970 onwards was restored to 7.6 per cent or 5.8 per cent per capita. Some labour and capacity shortages developed, growth slowed down in the winter, and the rise in the value of the Hong Kong dollar helped to keep down internal prices without seriously reducing export potential. Real growth in the narrower version of money supply fell from about 11 per cent in 1975 to about 9 per cent and it seemed that the growth rate might settle down to a sustainable level of 6 or 7 per cent.

China

Premier Chou En-lai died in January, Marshal Chu Teh in July and Chairman Mao Tse-tung in September. The Communist Party of China has no retiring age and over many years its most senior leadership had changed remarkably little. By October, however, over half the 1974 membership of the Standing Committee of the Politburo had died. This leadership, which took control of China in 1949 after almost three decades of struggle, had in the following 25 years restored the Chinese people's confidence in themselves and had grappled with the daunting problems of raising the living conditions of a vast and grindingly poor population. It had not, as Mr Chou once noted, found a way to bring on younger men. Once it became clear that neither Mr Mao nor Mr Chou had long to live a struggle for the succession developed and on 17 February the official People's Daily spoke of the Central Committee as being 'split'.

In January 1975 Mr Chou had presented to the National People's Congress a programme for the modernising of agriculture, industry, national defence and science and technology so as to build China into a powerful socialist country by the end of the century. The political struggle proceeded in terms not of the aim of modernisation, but of the methods to be used to achieve it. A group of ideologues in control of most of the central organs of publicity proposed to rely on political enthusiasm and dogmatic puritanism to achieve this end, while administrators responsible for the practical conduct of government wished to use more pragmatic methods. There was a lack in both groups of the patience and genius for conciliation which had enabled Mr Chou to hold the government together. Mr Mao, who had criticised both excessive empiricism and excessive dogmatism, proposed early in February the appointment as Acting Premier of a more central figure, Mr Hua Kuo-feng, who had experience of both provincial and national administration.

Mr Hua was appointed Premier and First Vice-Chairman of the Party in April. Throughout the spring and summer the dogmatists fiercely attacked policies introduced in 1975 and those associated with them. Their criticism was so clearly directed at policies approved by Mr Chou, that it provoked widespread and spontaneous public demonstrations. There were also in a number of cities, especially important railway centres, disturbances and violent attempts to displace local officials which were attributed to the dogmatist group. They pressed their campaign even in the midst of efforts to relieve the suffering and damage inflicted by a disastrous earthquake on 28 July centred near Tangshan. Once Mr Mao was dead this group moved to gain control, but were outmanoeuvred by Mr Hua and army and government leaders and arrested. There was clear popular distaste for their policies and methods, but they had support in some provinces, especially amongst younger men who had gained power during the Cultural Revolution, and for the rest of the year, and into 1977, there was a vigorous campaign to root this out, to win over most of those involved and to damp down the disorder in many industrial towns. Early in October Mr Hua became Chairman of the Central Committee and

Snowy egrets and green countryside alike are blackened and destroyed by the effluent and fumes of uncontrolled modern industry in Shoko Sasaki's lament for her home at Urawa near Tokyo.

of its Military Affairs Commission, an outcome which was greeted with evident and widespread relief.

Foreign policy showed little sign of change during these events, although state, but not party, relations with the USSR may perhaps be conducted less abrasively in future. The search for mutually satisfactory relationships with the United States and Japan proceeded, but without undue urgency. Ambassadors were exchanged with India and a striking, if expensive, foreign aid project, the building of the 1,156 mile long railway from the port of Dar es Salaam in Tanzania to the copper mine area in Zambia, was carried in July to a triumphant conclusion. China expressed approval of Asean and received many representatives of foreign governments, mostly from Asia, Africa and Australasia, but including the French Chief of Staff. There were objections to wholesale modernisation of the armed forces, but some re-equipment seemed probable. There were four nuclear tests and two satellites were sent into orbit.

Political conflict interfered with foreign trade, either directly or because production or transport was disrupted. There were dogmatist objections both to export of primary resources such as oil and to purchase abroad of sophisticated plant. Further efforts were made to develop regional markets for oil, but less was exported to Japan than expected. This was partly due to reduced Japanese demand and to transport and refining problems – Chinese oil has a high wax content. Oil production rose by 13 per cent and export forecasts were reduced both because of this slower growth of output and because of rapidly rising domestic use. A berth for 100,000 ton tankers linked by pipeline with the Taching oil field was opened at Talien. Other coastal ports were improved and Hsinkang near Tientsin installed facilities for medium-sized container ships, two of which were bought by China. Grain purchases were held back to balance the trade accounts, which had run heavily into deficit in 1974. In November political objections to trade and technical exchanges with foreign countries were rebutted and there were signs that trade was being revived, but kept more in balance. Rather more tourist traffic seemed also to be encouraged.

Inadequate transport has been a consistent impediment to economic growth. Roads especially and railways have been extended, but much of this effort has gone into remote western and northern regions – a new railway across the Greater Khingan mountains was reported in June. The commercially important railway routes in eastern China have been neglected – completion of the double-tracking of the trunk line linking Peking and the northeast through Tientsin with Nanking

Akio Yamao contrasts the ordered, tranquil and muted tone of a Kyoto temple courtyard with the hustle, the noise, the litter and the garish colours of the chaotic modern city outside.

and Shanghai was announced only in July. Some electrification was started in the early 1960s, but has had low priority and, while more diesels have come into use, most traction is still by steam engine. Even the number of bicycles had only reached one for every sixteen or seventeen persons at the end of 1974 – bicycles designed to carry loads of 250 lbs or so have great value in rural areas. The slow growth of transport facilities has in part reflected and in part induced the development of local and regional self-sufficiency. More emphasis on large-scale centrally-controlled industrial plants and coal mining and a greater effort to extend and improve the transport system seemed in prospect and perhaps less stress on restricting the development of coastal cities and on rusticating their young people.

The grain harvest was disappointing because of drought, floods, frost and insect pests. The effects of the first two have in recent years been reduced by a massive mobilisation of peasants – 130 million in 1975/76 – every winter for capital construction, including irrigation, drainage and flood control and the levelling and improvement of fields. Some communes have also begun to develop a degree of labour specialisation, including full-time capital construction teams. Even so there have regularly been calls for sparing consumption of foodgrains and rationing continues in the towns. One purpose of this effort is to create large fields which will facilitate mechanical cultivation. The 'basic mechanisation' of agriculture is stressed, although this often only means use of power pumps and rice husking machines – the number of tractors is still small. Mechanisation to permit 'large-scale socialist agriculture' demands not only machines, but also larger farming units, maintenance and repair facilities, fuel supplies and electricity. The peasants have consistently resisted a change to larger units, 17 per cent of communes still have no road access, a high proportion still have no or very little electricity supply, and in mountainous areas large fields are not possible.

Widely spread light industries, where possible locally designed and financed, to provide machines for agriculture and incentive goods for the peasants have been encouraged, while exports finance large-scale, centrally-controlled heavy industrial plants based on foreign technology. There was a lower rate of industrial growth. The Tangshan earthquake caused huge casualties, obliterated a major industrial and transport centre and did damage over a much wider area, including Peking, Tientsin and Hsinkang and the largest coalfield in China. Disorder and political uncertainty also had a great effect. Activity in factories and mines and on the railways was reduced or halted, due partly to a wage grading system heavily biassed in favour of age, length of service and political loyalty, rather than ability or productivity, and to a campaign to prevent wage increases, overtime pay and other material incentives and also because many officials and managers think it prudent to avoid decisions in uncertain times. Steel output was limited by lack of facilities to upgrade low quality ore. Large new plants, especially to produce petrochemicals and nitrogen fertilisers, were completed, but orders for further foreign plants were delayed by dogmatic objections. The shipyards again raised the size of ship built by launching a 50,000 ton tanker, but, as with other industries, less effort was put into repair and maintenance work.

Bitter criticism at first halted a movement to restore standards in education. Low educational standards impede economic progress and a call in December for people 'to raise their cultural and technical levels' suggested that the movement was being revived. A harsher policy towards the culture of minority races was introduced and seemed likely to be reversed again, while a less narrow attitude in the cultural field emerged in October. A more rational policy on industrial management and discipline seemed probable. There was an upsurge of consumer expectation and demand, and also advocacy of a revival of incentives in industry and mining, although some officials, who rejected the purist belief that workers could be inspired to greater efforts without thought of reward, seem to have been unsure whether, given a bureaucratic system, higher productivity would offset the higher consumption involved. Instructions issued in December for the study of a 1956 speech by Mao Tse-tung 'On the Ten Major Relationships' suggested that in these and other fields a balance would be struck between extremes.

The new chairman remarked in December that it had been 'an extraordinary year', in which factionalism had 'caused great political and ideological confusion and enormous economic losses'. The start of the new Five Year Plan was disrupted, but the economy should benefit if China can resolve the tension between doctrinal purity and practical needs which has greatly impeded economic progress. Mr Hua noted that 'the fundamental interests and common wishes of the people' were 'to achieve stability and unity ... and bring about great order across the land'. It seemed clear that a vigorous effort would be made to reconstruct the Party, to give back to intellectuals and teachers a measure of the esteem they had traditionally enjoyed and to restore discipline and a better atmosphere in industry, the mines and the railways. There were signs also perhaps of an intention to revive the Chinese tradition of seeking harmony rather than confrontation.


京都八景
KYOTO
パチンコ
写楽
富士
TOP

Japan

The major factions within the Liberal Democratic Party spent the year trying to remove the Prime Minister and to revive the traditional pattern of politics. Mr Takeo Miki had been elected Prime Minister in 1974 as a compromise candidate when neither of the leading candidates, Mr Takeo Fukuda and Mr Masayoshi Ohira, could secure a decisive majority. Mr Miki had been known to hold liberal views, but proved also more skilfully independent than expected. His policies on party conduct and political funds attracted public support, but were resisted within the party, while those on economic growth and monopolies were unwelcome to those who provided its funds. In February there was strong popular reaction in Japan to allegations in an American Senate committee of bribery to secure aircraft sales. Mr Miki undertook to pursue the case and efforts to force him to resign were frustrated by the difficulty of doing so without seeming to wish to prevent investigation of these allegations, which led in the summer to the indictment of a number of prominent figures, including a former Prime Minister. In October the major LDP factions finally agreed to support Mr Fukuda, but were unable to evict Mr Miki before the lower house elections on 5 December for fear of appearing openly divided.

Mr Fukuda left the government on 5 November and campaigned against Mr Miki, although they shared a platform just before polling day. The LDP did less badly than might have been expected. They won 249 seats out of 511, the adherence of independents brought their voting strength to 260, a majority although not enough to control all the Lower House committees, and they could expect some support from younger members who had wished to see the party reformed and had broken away to form the New Liberal Club. The NLC won 17 seats in the election, mostly in urban areas which had hitherto supported left wing parties. The moderate Komeito and Democratic Socialist parties also did well, while the Japan Socialist Party gained few seats and the Japan Communist Party lost over half its seats – the JCP's total vote was little reduced, but its relatively large number of candidates secured far fewer votes on average than those of other parties. Prices seemed more of an issue than corruption and the success of the NCL, DSP and Komeito suggested that voters wanted reform rather than radical change. Mr Fukuda, a proponent of moderate rather than high growth, became Prime Minister on 24 December.

These events may have helped to hold back economic recovery. The full 1976/77 budget, which increased allocations for public works by over a fifth and for Export Import Bank facilities to promote exports by over four fifths, was not passed until May, while bills to restore the financial position of the national railways and the telegraph and telephone authority and allow their investment programmes to proceed were not passed until October. Under the influence of reviving exports, house building, private consumption and machinery orders real economic growth was rapid in the first quarter. Wage rates rose 8.8 per cent in the spring bargaining process, less than consumer prices, and half-year bonuses were lower than usual. Propensity to consume was a little higher, but machinery orders eased back and economic growth weakened during the summer.

Economic activity was stimulated in October by public sector wage increases and government proposals which augmented finance for small businesses, soft loans for private house building and credits for exports to developing countries of industrial plant and equipment, and called for more rapid railway, telephone and telegraph, electric power and oil refinery investment. A supplementary budget in December provided for further spending on public works; works in progress included a series of bridges to link Shikoku with Honshu. Political uncertainty and increasing foreign complaints about the export drive still induced caution in the winter, but the growth rate improved and industrial production was 13.4 per cent higher over the year. Real growth in the financial year to 31 March 1976, achieved mostly in its last three months, was 3.4 per cent. By December the government expected 5.7 per cent growth for 1976/77, slightly more than originally forecast, and 6.7 per cent growth and 7.7 per cent inflation for 1977/78.

The indicative plan for 1976-1980 envisaged growth rates rising in 1977 and 1978, but averaging 6 per cent over the five years. It concentrated on living conditions rather than productive capacity and noted that this implied increased taxation, which is low in Japan. It proposed greatly increased expenditure on social security, on housing, sewerage and transport facilities and on pollution control; encouragement of industries requiring high levels of technology and minimal use of energy and raw materials; and measures, including the building up of stockpiles, to secure supplies of raw materials, energy and food. Three quarters of all food was to be supplied by local farmers, with reduced emphasis on rice; Japanese farmers have dwindled in numbers, but increased in productivity, and have a higher standard of living than the average urban family.

Some business supporters of the government

would have preferred it still to pursue high growth, while the opposition parties wanted more funds for education and social security. Both supported large tax cuts. The finance ministry resisted this and further use of borrowing rather than taxation to meet expenditure; a bill passed in October provided for bonds to cover 15 per cent of the budget. The ministry was especially worried that inflation might revive. Average wholesale prices rose by 5.5 per cent as against 3 per cent in 1975, although this was caused largely by firms pushing up prices to restore margins in the summer and levelled off after September. The consumer price index also rose more than expected.

Some of the caution displayed about economic prospects stemmed from structural changes in the economy and from the need to adjust to regular annual real growth of 5 or 6 per cent, instead of 10 to 15 per cent in good years and 6 or 7 in bad. Bankruptcies among small and medium firms again rose sharply, to 15,641 with debts of about US$500,000 apiece; building and property firms were nearly a third of the total, while industries affected by competition from countries with lower labour costs included timber and textiles. Nevertheless, sales and margins improved in many industries, profits increased sharply and new investment was undertaken. Stock market prices rose by 13.35 per cent over the year. One reaction to the prospect of slower, steadier growth was a determined effort to eliminate surplus labour and raise productivity, and possibly some weakening of the 'life-time employment' tradition. By January the number of unemployed had reached 1,240,000, a high level for Japan, and, although the level subsequently declined, it was clear that industrial firms were increasing output by capital investment and better use of existing equipment rather than by taking on additional labour.

Caution was also induced by severe criticism in North American and Western European countries of the effective selective export drives conducted by Japan, especially for ships, television sets, cars, steel and bearings. These countries were also faced with economic adjustments, declining traditional industries and high unemployment and their governments were under some political pressure to act to moderate forces inducing change. Japanese exports in January were still below January 1975, but from May onwards were always a fifth or more above the level a year earlier. Over the year they were 21 per cent above 1975, while imports revived more slowly and rose 13 per cent. Moreover, while import growth was almost entirely in goods from Asia and the Middle East, export growth was largely in a few items and to the United States and the EEC, both of which set in motion machinery to prevent dumping and threatened to impose restraints if 'orderly marketing arrangements' were not introduced.

As Japanese trade and payments surpluses and foreign exchange reserves grew rapidly the government moved to deflect complaints of administrative obstacles to investment in and export to Japan. International use of the yen was also discussed, but it was not widely supposed that large changes would result. The value of the yen was allowed to appreciate, although it declined briefly in December, despite a large current payments surplus. Action was taken to reduce the overall payments surplus. Borrowing abroad was discouraged and overseas lending and tourist spending were encouraged. Measures were instituted to increase oil stocks and to stockpile minerals. The commitment to the IMF General Arrangements to Borrow was raised from 265 to 1,000 SDRs, while several large investment projects concerned with resource supply and held back during the recession, notably for oil refining and petrochemical plant in Iran and a power and aluminium project in Indonesia, were allowed to go ahead. Agreements on economic cooperation with Australia, Brazil and Canada also seemed likely to lead to substantial investment in resource development.

Japan ratified the nuclear non-proliferation treaty in June. The government reasserted their reliance on the US defence treaty, while opposition disapproval was muted. Concern was expressed at the possibility of American withdrawal from South Korea, whose defence was seen as vital, and at the effect of any American decision to abandon Taiwan. A defence white paper laid stress on quality and efficiency in the armed services, but proposed also to reduce their size, despite the American view that they should take a larger share of defence burdens. Japan remained unwilling to disturb the balance of relations with her two main continental neighbours. No progress was made with proposed treaties with either China or the USSR, which still declined to return the four northern islands. Political relations were strained when a Soviet pilot landed an advanced fighter aircraft in Hokkaido which the Japanese investigated before returning, but the Russians retained their interest in Japanese investment in resource development and an agreement relating to natural gas in Yakutia was signed in March with the United States as a third partner. Both Russia and the US laid claim to 200 nautical mile offshore economic zones. These claims covered areas supplying much of the Japanese fish catch, which seemed likely to be whittled down again, and confirmed the perennial Japanese concern with their lack of physical resources.

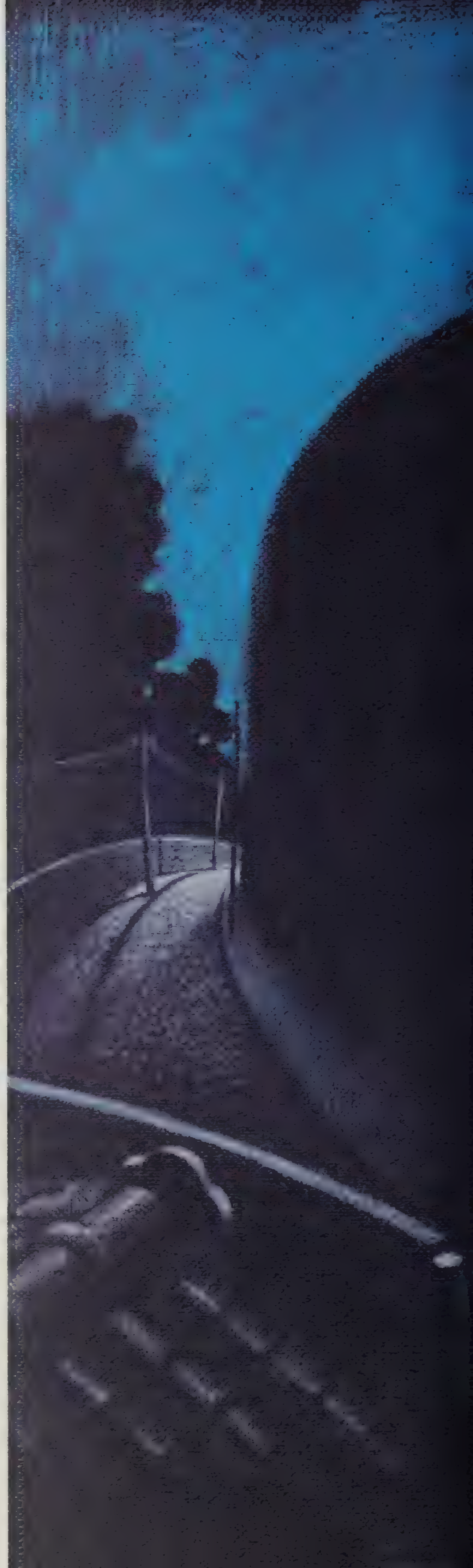
A city should be a comfort and a refuge, and a pride and pleasure to its people. To Shiro Tatsumi these grim and menacing Tokyo hospital and office blocks seem to offer only pain and despair

The Philippines

Demand for leading Philippine products was less buoyant than had been hoped, and the official agency which had a monopoly of sugar export was embarrassed by large stocks. The producer price of sugar was dropped and the domestic price was raised. Long-term contracts for sugar were made with American firms, while sales to the USSR and China helped to diversify markets. It was agreed to open diplomatic relations with the USSR, on 2 June during a visit by President Marcos, and with Vietnam, on 12 July following modification of the earlier Vietnamese line on American bases. Negotiations with the United States on the bases were pursued actively from June onwards. When they were adjourned in December it was believed that progress had been made on sovereignty and control, but that there were still differences on financial arrangements. Reparations payments by Japan were completed in July and the Philippine government proposed talks on a new trade treaty.

An agreement was reached in December on a cease-fire and some measure of autonomy for Muslim areas. President Marcos accepted this in principle on 28 December and talks on the intractable problems involved were due in February 1977. He announced on 21 January that he would form an advisory body, the Batasang Bayan, to help him exercise his legislative powers. This body, composed of members of the Cabinet and consultative groups, met in September and again in December. A referendum in October supported proposals for maintaining martial law and changing the constitution to permit firm executive control without the necessity of martial law and to provide for a further body, the Batasang Pambansa, partly elected by citizen's assemblies and partly appointed, in place of the National Assembly. The President then indicated that he would suspend martial law once the Muslim problem had been resolved, other insurgency had been ended and economic difficulties created by low export prices and rising oil and other import prices had been overcome.

Export earnings were about US\$2,172 million, slightly below 1975 and imports 5 per cent less at US\$3,051 million owing partly to technical factors. The trade deficit was US\$171 million lower, but the surplus on invisibles, such as tourist earnings, and transfer payments fell by some US\$132 million, and the current deficit declined only by US\$39 million. The overall payments deficit fell from US\$521 million to US\$150 million due to a large rise in capital inflows and was more than covered by compensatory borrowings. Export earnings from sugar fell heavily, but more processing of coconut offset lower prices, copper prices greatly improved and earnings from some manufactures, such as



clothing, textile fabrics and plywood, more than doubled. Weather conditions limited the banana crop, but greatly helped 1975/76 rice, maize, sugar cane, coconut and other crops. Virtual self-sufficiency was claimed in rice and nearly so in maize. Efforts were made to stimulate cotton growing. Restraint on expansion of sugar milling was lifted, but reduced prices, and higher prices for other crops, encouraged switching of acreage; greater use of fertiliser, better seed and more irrigation would help free marginal rice land for protein and fodder crops and animal husbandry.

Manufacturing output began to grow again, as did investment, especially in minerals, despite a restrictive new ruling on alien employment, while the government sought to extend the financial sector by permitting offshore banking. The overall growth rate was slightly greater at just over 6 per cent and inflation fell to 5.6 per cent. Growth was more balanced than in 1975, but was still led by construction, both of infrastructure and of hotels in Manila before the IMF/IBRD meetings in October. The 1977 budget gave 29 per cent of expenditure to infrastructure, including public utilities, and proposed a larger deficit. The wider components of money supply rose sharply and by December the Central Bank was beginning to tighten credit restraint. There was some concern over continued foreign borrowing to keep the economy moving forward. Official and private debt each rose by 48 per cent to a combined total of US$5,554 million, of which almost half was private. The Central Bank denied that the debt service ratio was excessive, but was expected to restrain private foreign borrowing. Stock market prices remained low, but turnover was stimulated by news of oil shows, although these were not it seemed in commercial quantities.

The government encouraged the search for oil, while seeking to diversify sources of energy by cutting out inefficient oil-fired power plants and ceasing to build new ones, and by installing hydroelectric, geothermal and nuclear plants. It was proposed to seek self-sufficiency in consumer necessities, including food, and to foster labour-intensive and export industries and capital-intensive industries using local resources. The rural areas were to be given priority, with an electricity grid, much road building and small irrigation and drainage projects. A principal aim was to stem the flow of people into the cities by creating more rural jobs and changing the balance between urban and rural conditions. This process was accelerated by inflation and led to industrial strikes which were stopped by army action. In May improved minimum wage rates again reduced differentials between industrial and agricultural workers and did not fully offset the earlier sharp fall in real wages; this had made Filipino industrial labour the cheapest in the region and had stimulated investment in labour intensive export industries. Revived employment growth and lower inflation reduced pressure on urban workers, but any substantial improvement depended essentially on greater external demand.

Thailand

Impatience with new policies and the compromises of democracy amongst military men and civil servants, indiscipline and a lack of realism amongst politicians and students, and growing factionalism forced MR Kukrit Pramoj to dissolve parliament in January and led in October to the collapse of the latest democratic system. Elections in April led to fewer, larger parties. On a low turnout four parties won almost nine seats out of ten, with four of these going to the Democrats headed by MR Seni Pramoj, while left-wing and extreme right-wing groups lost heavily. MR Seni formed a coalition which appeared more solidly based than its predecessor. Its chief military backer, who might have contained the factions in the armed forces and the coalition, then died and it soon became clear that the Democrats were divided, with a radical wing which pressed for large changes in foreign, economic and social policy, while the rest of the party and coalition wished for little change. This resulted in increasing indecision, except on external relations, where withdrawal of American forces was completed and relations with the Indochinese states were improved.

In August and September the return of two former military leaders led to rival demonstrations by students and right-wing groups and to an assault on 6 October on Thammasat University in which 40 or more people, mostly students, were killed. Senior officers then declared martial law. They abolished Parliament and the Constitution, appointed a civilian Prime Minister, Mr Thanin Kraivichien, introduced a new constitution and, as a cautious first step towards a return to democracy over a dozen years or more, set up a nominated assembly. The new government's policy called for a restoration of law and order, higher standards of morality, heavily increased expenditure on the armed forces and an independent foreign policy, which led to closer contact with Thailand's partners in Asean and a cooler attitude to the Indochinese countries. The crime rate dropped and a fresh campaign was launched against corruption. Some radicals left for Laos to join the Communist Party of Thailand, but there seemed little popular hostility to the change.

Economic policy stressed financial stability, the reduction of poverty, land reform supported by the

expansion of rural credit and cooperatives and more widely and evenly distributed education and health services. Strikes and lockouts were banned during martial law, but the right to organise and bargain and to minimum wage, overtime pay and welfare benefits were to be maintained. In 1975 investment in promotional projects shrank below 7.5 per cent of the 1973 level. This was attributed officially to political instability, labour unrest and recession. In 1976 small locally-financed labour-intensive projects increased, but there was little foreign investment. Unemployment reached almost 10 per cent in Bangkok, mostly among former peasants, but also among vocational and technical school graduates. The Prime Minister gave priority to reversing these trends. He became chairman of a strengthened Board of Investment, simplified procedures and brought in a bill to provide tax holidays, the right to carry forward initial losses, and protection of promoted projects against competition and nationalisation. In December a contract was signed for an offshore tin dredging project, arrangements for which had earlier twice been reversed for political reasons, so discouraging other investors.

Drought cut paddy output by 8 per cent, but agricultural production again increased overall. Twice as much tapioca, maize, sugar cane and soyabean was grown as in 1972 and less kenaf, but by November kenaf prices had risen substantially while the others were falling; proposals for animal husbandry and processing industries in the north-east should increase demand for all these crops. Despite flooding, increasing rubber replanting and sale in block form at a premium helped to raise output in 1976 by a fifth and earnings by over half. Income per capita grew faster from 1970 to 1975 in the south and central regions than in the north and north-east, and faster still in Bangkok, to almost nine times the north-eastern level. Land reform made little progress and rural development programmes were consolidated rather than taken further. In June guaranteed paddy prices designed to improve rural incomes were lowered, but better world prices later lifted farm prices well above floor levels. The Bank of Thailand set up three regional clearing houses to assist commercial bank expansion in the provinces and institutional credit for farmers again increased rapidly.

Export earnings rose much more than imports, despite larger purchases of raw materials and semi-manufactures. A smaller trade deficit was offset by reduced service income and private capital inflows, tourist numbers and foreign investment being depressed, while American military expenditure ceased. Despite a deficit in the later months, the balance of payments, owing partly to increased foreign borrowings, ended just in surplus. Overall the economy recovered steadily, led by exports and government expenditure, and special rediscount facilities for textile firms were suspended in June. The share of export earnings supplied by processing and manufacturing – a tenth in 1971 and over a third in 1975 – continued to grow. The terms of trade improved. In October domestic wholesale prices of local products had risen by 4.1 per cent over 12 months and export prices by 12.7 per cent, while import prices had barely moved. Retail prices rose by 5 per cent and by half that in the north-east. GDP growth was almost 7 per cent and, provided investment revived and price inflation did not, a higher rate seemed possible in 1977.

Malaysia

Tun Razak died on 14 January and was succeeded as Prime Minister by Datuk Hussein bin Onn. Datuk Hussein was regarded as uncommonly honest, sensible and determined, but concern about his health, although it was discounted, stimulated political rivalries within UMNO. In March Datuk Hussein chose Dr Mahathir bin Mohamed as Deputy Prime Minister. Dr Mahathir had once been regarded as a blunt exponent of Malay claims, but in office took a broader view and both he and the Prime Minister sought to reverse a tendency to communal polarisation which was exploited by the Malayan Communist Party. Action against politicians and officials accused of corruption was also pressed forward.

Datuk Hussein was equally determined to deal with communist political and terrorist activities, which endeavoured to exploit the restructuring policy by claiming that it made a few Malays rich, threatened Chinese interests and failed to benefit poorer Malays. The armed forces were expanded and greater pressure was maintained against guerrilla bands trying to penetrate southwards. There was a setback in June when the Thai government asked Malaysia to withdraw troops which had been operating by agreement across the border, but after October a new Thai government was more cooperative. In general terrorist activity seemed well under control.

It was less clear that the communist political effort had been contained. In June a prominent editor, Encik Abdul Samad, was detained, along with Malay associates in Malaysia and Singapore, for having worked on Malay prejudices so as to incline them to accept communist views. The case caused concern since communist support had been assumed to exist only amongst Chinese. Encik Samad admitted the charge and stimulated discord within UMNO by claiming to have influenced people at the highest levels of government. It was then argued within the party that firm action must be

Catherine Loeb displays the Los Angeles ideal, a style of life built around the motor car, the swimming pool and the sun, as seen through eyes that were born and trained in France.

taken to remove from office anyone so influenced. Two immediate targets of this argument, junior ministers who had been close to Tun Razak, resigned on 2 November and were later detained.

Datuk Hussein sought to dissipate reservations about economic policy among both the Chinese community and foreign investors. When the Third Malaysia Plan was published in July it spoke of the need for a 'favourable investment climate' and 'dynamic entrepreneurship' and for 'an economic order in which the well-being of Malaysians of all races, from all walks of life and in all regions of the country will be enhanced'. The Plan stressed the need to strengthen national security and gave more priority to backward eastern and northern areas – port, airport and other works at Kuantan came into this category. It emphasised growth, to pro vide better jobs for the rural poor in industries based on local resources, rather than redistribution of existing assets, and paid attention to the needs of Chinese in the New Villages and the urban poor, as well as those of small cultivators and fishermen.

The Plan assumed greatly increased domestic and foreign private investment, but private fixed capital formation remained depressed, having declined by 3.6 per cent in 1975. Local investment was impeded by uncertainty over the re-structuring policy, which was often applied in ways ministers had not intended. Foreign and domestic investors were wary of some recent legislation, notably the Industrial Coordination Act, which required most manufacturing concerns to seek a licence from the Minister of Trade and Industry who could then impose such conditions as he though fit, and a management shares provision in the Petroleum Development Act. Ministers claimed that these powers would lie dormant, but past experience suggested that officials would use them if they were available. Oil and natural gas development almost ceased and the attraction of labour-intensive resource-based industries to backward areas seemed likely to require a better investment climate and further incentives. The government recognised these problems and stated that investment policy would be reviewed and later that both acts would be amended. Oil production sharing contracts were subsequently agreed and on 18 December the Lower House passed a bill repealing provisions for management shares and for certain licences in connection with petroleum and petrochemical production.

The budget on 29 October raised indirect taxes on luxuries and eased personal and corporate tax allowances, including depreciation allowances and development tax – the finance ministry had earlier announced new investment incentives, including an export guarantee scheme, discount facilities for

exports and better depreciation rates on resource-based industry and agriculture. More funds were, however, allocated to government corporations designed to act for 'bumiputras' than the Plan had been thought to envisage and new directives on the distribution of loans appeared likely to impede overall lending. There were shortages of electric power and it seemed that too much oil palm might have been planted – a licensing authority was set up to control expansion and a research institute to develop quality, processing and uses of the oil. A shipyard capable of repairing the largest tankers came into operation and creation of a commodity clearing house was discussed.

The Plan aimed to raise annual real GDP growth to 8.5 per cent from 7.4 per cent under the Second Plan. In 1976 growth was some 8.5 per cent, largely because of better foreign demand and higher prices for commodities. Oil palm product prices fell, but rubber, tin and timber receipts rose sharply; earnings from these four commodities grew by a third and from other exports by over a quarter. The terms of trade improved and Peninsular Malaysian exports ran almost a third and imports only an eighth above 1975 levels. Japan was again the largest source of imports; these were outweighed by exports to Japan, but the timber trade in Sabah and Sarawak was affected in November by a sharp drop in Japanese demand. A Vietnamese embassy was established and Cambodia agreed to open diplomatic relations. China contracted to purchase Standard Malaysian Rubber direct from Malaysia. Both China and Vietnam avoided immoderate expressions of public support for the MCP, although the Vietnamese and Laotians launched a fierce attack on the Malaysian 'zone of peace, freedom and neutrality' proposal. Datuk Hussein visited Burma, but in general foreign relations were concerned mainly with raising funds for the Plan and consolidating relations with Asean partners. In particular there were in November meetings with Thai representatives, including one between Prime Ministers, which seemed to foreshadow greater cooperation on border problems.

Sabah and Sarawak

In elections to the Sabah Assembly held in April, the state government lost support even in Muslim areas. It won 44 per cent of valid votes and 20 seats and Berjaya 54 per cent, 28 seats and the right to appoint a further six members. On 6 June the new Chief Minister and several able and experienced colleagues were killed in an aircraft disaster. His deputy, Datuk Harris, succeeded him, retained the vacant seats and secured enough defections to give Berjaya the two-thirds majority needed to change entrenched arrangements. The government set out to rebuild the state finances, to develop rural infrastructure and to enforce conservative management of timber by halving extraction and promoting replanting and processing. Up to November, when there was a sharp break in prices, the value of timber exports doubled, crude oil exports grew nine-fold in volume, the new copper mine shipped useful amounts of concentrates and earnings from rubber and minor exports rose considerably. Imports were little above the 1975 level, while total export receipts more than doubled, producing a large trade surplus and increased government revenue.

The Sarawak National Party joined the National Front in June and secured ministerial posts in the federal and state governments; its President, Datuk Dunstan Endawie, became Deputy Chief Minister. Security forces successfully contained communist guerrillas. Crude oil and oil product earnings rose by four fifths, while timber exports almost trebled in value up to October. Receipts from rubber doubled and pepper and minor exports increased by a quarter. Imports grew by a quarter, but to only half the value of total exports. Import prices again influenced the cost of living, but improved minor export earnings and more jobs and higher wages in the timber industry helped to raise incomes generally.

Singapore

A general election was held on 23 December. People's Action Party candidates secured 16 seats unopposed. The opposition vote was split in only two of the 53 contested constituencies, but their support declined, their share of total votes dropped to 25.3 per cent and they failed to win a seat. Turnout at 95.1 per cent was higher than in 1972 and the result showed solid support for government policies. There was a further reduction in the crime rate. Detentions connected with communist united front, propaganda and supply activities were announced, including some in June linked with an effort, directed from Malaysia, to exert disguised communist influence on Malays. In April there was a campaign in the Socialist International against the government's use of detention. This led to a letter of resignation from the PAP which criticised the arrogance of 'west European parties . . . fed selective items by communist united front groups', who behaved as if they had a civilising mission in Asia.

In May Mr Lee, the Foreign Minister, Mr Rajaratnam, the Finance Minister, Mr Hon, and other ministers visited China for a fortnight. The two countries have trading but not diplomatic relations and, unlike other states with a formal relationship, Singapore permits the operation of Chinese concerns. Mr Lee was well received and

saw Mr Mao on 12 May. In April Mr Rajaratnam visited the USSR, which is permitted some use of Singapore facilities, and a Russian deputy foreign minister was in Singapore in December. On 6 May diplomatic relations were established with Cambodia and in July Phan Hien, a Vietnamese Deputy Foreign Minister, visited Singapore in the course of a tour one purpose of which was to create a less alarmingly abrasive impression of Vietnamese foreign policy; in Singapore he also displayed an interest in bilateral trade and in the state's experience of the oil exploration industry and of attracting and using foreign investment.

Mr Lee did not himself attend the Non-Aligned Conference, but sent trenchant written views to the Conference on selective Vietnamese criteria for accepting nations as genuinely independent and on the logic of economic cooperation with developed Western countries. He also played an active part, after the Asean Conference in Bali in February, in efforts to strengthen cooperation in the association. Exchanges with other Asean nations included a visit by President Suharto of Indonesia in November at which the Straits of Malacca, cooperation over development of Batam Island, extradition and a preferential trading arrangement for Asean were discussed. Mr Lee seems also to have agreed to provide figures on trade between Singapore and Indonesia, which has been larger than Indonesian records suggest.

After declining in 1975, trade picked up. In the first ten months total published exports were running 27 per cent above 1975 and imports almost 15 per cent, with domestic exports again 58 per cent of all exports. Tourist arrivals and hotel occupancy rates improved and official foreign reserves rose 10 per cent in twelve months to 30 September. The Export Credit Insurance Corporation, which hopes to cover a tenth of all exports, began to write policies. Malaysia drew slightly ahead of the USA as Singapore's main trading partner, with Indonesia probably at much the same level, followed by Japan and Saudi Arabia. The EEC, which was in total little behind Japan and with a better balance, provided relatively favourable entry for clothing from Singapore, but for five months suspended GSP preferences on calculators when shipments exceeded the quota ceiling.

Economic recovery, stimulated by government spending and a revival in international trade, quickened in July. GDP growth was perhaps 7 per cent against 4.1 per cent in 1975. Of four industries which contribute two thirds of manufacturing added value, electronic and electrical goods were at first buoyant, but petroleum, ship and rig yards and metal products were depressed, as also was clothing. Petroleum refining and ship repair work later revived, while electronics growth eased and rig building and some other industries were still affected by reduced oil exploration activity. Work continued on housing and water supply programmes and on external communications facilities, including wharves and a new airport, and in December there was agreement with the Philippines on starting an Asean cable network, but the mass rapid transit system was postponed; official policy had reduced private cars registered, and road casualties, by a quarter in two years, while strengthening bus services. A large deficit was proposed in the budget and increased development spending, although Mr Hon spoke of the need for consolidation. There was some revival of private investment, but by late December concern was growing that demand in advanced countries might be slackening. About 16,000 new jobs were created by July, but the wish to control labour costs led the National Wage Council to limit wage growth more strictly, a policy made easier by a decline of about 2 per cent in the consumer price index over the year.

Brunei

Oil production averaged 221,000 barrels a day, 15 per cent above 1975, but still below 1974. The natural gas liquefying plant exceeded its rated capacity and produced 5.1 million tons; it was proposed to raise the government's share, hitherto 10 per cent, in this enterprise. The great bulk of oil and gas exports again went to Japan. Shipments of equipment and materials for new development projects had inflated imports in 1975, but exports at over US$1000 million were nearly four times as valuable. In 1976 there was again a large trade surplus. Oil and LNG tankers were handled by the specialised facilities off Seria and Lumut, while Muara was occupied almost entirely with imports, rubber exports having dwindled away. The volume of cargo handled at Muara fell by 28 per cent, but again, despite problems with silting, far exceeded designed capacity and steps were taken to provide more berthing space, to deepen the approach channel and to improve navigational and other aids.

A cargo building was completed at the airport and servicing and maintenance facilities were improved. Five airlines ran scheduled services, to Singapore, Kuala Lumpur, Kuching, Kota Kinabalu, Hong Kong and London, and Royal Brunei Airlines applied to start regular services to Manila and Bangkok. Plans were carried forward to modernise the internal telephone system and to provide a satellite earth station by 1979. Roads, electricity generation and distribution and water supply were extended and building work included more government houses and flats, a new general


R.GIUST

Robert Giusti offers a reminder from New York that even early forms of industry sadly despoiled natural resources as the iron-masters levelled, but did not replant, whole forests for charcoal.

hospital and secondary and further educational facilities. Steps were taken to improve the quality of sound broadcasting, and to provide educational television programmes available to all, where necessary through free or subsidised sets. Large sums were voted for buildings and other capital works for the Royal Brunei Malay Regiment; the government still feared external support for and training of dissidents, although there seemed signs of disunity in the Party Rakyat, which had attempted a coup in 1962.

Despite spending on infrastructure, free health and educational services and subsidies for sugar, rice, water, electricity, posts, telecommunications and petroleum products, which in 1975 kept inflation below 4 per cent, revenue reserves rose to US$1275 million in 1976 and were expected to exceed US$1900 million in 1977. An advisory board began to consider problems of currency fluctuation and investment in April. With much infrastructure already completed the 1975-1979 development plan, which aimed to maintain a 6 per cent growth rate, was concerned with productive employment and self-sufficiency in cereal and meat supplies to make up for any future decline in oil revenues. The chief restraints were increasing reluctance to farm and lack of trained workers, offset to some extent by immigration. Urban growth had already promoted production of vegetables, fruit and, using imported feed, pigs and poultry. Resources were surveyed, trial plantings of tapioca, castor oil plants and coconut palms were prepared and thought was given to starting, or reviving, cultivation of rubber, oil palm, rice, maize, legumes, coffee, cocoa, sugar and tobacco for export or local consumption and to expanding buffalo herds and fisheries. The Cooperative Development Department tried to stimulate small enterprise, while the Economic Development Board investigated proposals for using local resources, including a timber complex and paper and pulp and fertiliser plants.

Indonesia

Preparations for general elections in May 1977 led to greater readiness to fault the government and in August the authorities themselves drew attention to criticism of abuse of power and influence. It was not supposed that this would prevent Golkar, an association of functional groups which supported the government, from winning the election, but it made the authorities less certain of the two-thirds majority Golkar hoped for and therefore more anxious to ensure support. The other permitted parties were Partai Demokrasi Indonesia, an uneasy amalgam of the old Partai Nasional with various Christian groups, and Partai Persatuan Pembangunan, which brought together the former Muslim parties – PPP was thought capable of attracting a considerable vote. The last of those detained without trial after the 'Malari' riots in January 1974 were released, as were groups of the 30,000 or so people detained since the abortive 'Gestapu' coup in 1965 – all those not convicted were to be released within three years, although many would be unable to resettle in Java.

The UN Special Representative attempted without success during January to make contact with Fretelin representatives in East Timor, while the Indonesians proposed 'an act of free choice'. The Provisional Government of East Timor formed an assembly which approved a petition on 31 May calling for integration with Indonesia and President Suharto accepted this in principle on 7 June. An Indonesian bill providing for the incorporation of East Timor as a province became law on 17 July and leaders of the Provisional Government were subsequently installed as Governor and Vice-Governor. By agreeing with Indonesia in July on repatriation of refugees from Timor the Portuguese seemed tacitly to accept the position and the Australian Prime Minister did much the same in October, during a visit designed to remove a coolness in relations which stemmed from earlier Australian reactions to Indonesian actions in Timor. The Security Council passed a resolution in April which supporters of Fretelin criticised as favouring Indonesia and thereafter international interest, and Fretelin resistance, seemed to evaporate.

Fretelin still received some verbal support from Asian communist countries, but they too improved state relations with Indonesia. A Vietnamese Deputy Foreign Minister visited Jakarta in July, the Vietnamese Prime Minister was invited to pay a visit and the Laotians sent a message on Indonesian National Day, even though both countries were sharply critical of Asean countries in general in August. There seemed signs that China's approval of Asean might have accelerated progress towards the normalisation of relations, while Russian aid was accepted for hydroelectric and alumina plants. Indonesian policy, however, was mainly directed to developing relations with Asean, whose foreign ministers and heads of government met in Bali. A visit to Singapore in November by the President seemed to promise progress on trade relations and control of navigation in the Straits of Malacca.

The debts of the oil monopoly, Pertamina, were officially stated in May to be US$10,656 million and vigorous action was taken to prevent them from frustrating the five-year plan. Pertamina was given new management and a much tighter structure of control, non-oil enterprises were detached and reduced in scope, and

Living in Vancouver and coming from Hong Kong, David Lam seeks to fuse western and Chinese styles, abstraction and realism, in his view of a characteristically unspoiled landscape in the southern Canadian Rockies.

construction contracts, often inflated, were revised. There remained large commitments for the hire-purchase of oil tankers. These problems made it less easy to reverse a sharp decline in investment, already depressed by recession and by a wish, which reflected some revival of economic nationalist views, to be more selective in accepting foreign participation. To restore income lost through Pertamina's difficulties the government insisted on new contracts with foreign oil concerns. In doing so it gained revenue, but greatly reduced the incentive and cash flow essential to sustain exploration and development and worried foreign investors generally. Oil exploration dwindled and the government seemed subsequently to conclude that it should offer better production sharing contract terms.

Increasing concern over rapidly growing population in Java led to renewed efforts to stimulate family planning, which made progress, and emigration to the outer islands. Attempts to organise migration had always failed, due to a reluctance to leave Java and the cost of creating farming land elsewhere, and the net flow had been inwards to Java. The formation of settlements growing rubber and other crops continued, but to attract those seeking urban employment it was proposed to provide industrial jobs and better urban conditions in the outer islands and to improve communications by expanding inter-island shipping and telecommunications – more coastal vessels were ordered and the first of two communications satellites was launched on 9 July. Steps were also taken to improve conditions in Javanese cities. Birth control was made more urgent by rising per capita consumption, which required an annual growth in rice output of around 7 per cent if self-sufficiency was to be attained. There was a good first crop, but drought reduced the year's total to some 15.6 million tons of milled rice, no more than in 1975. The price of fertiliser was lowered, paddy prices were raised, and more funds were allocated for irrigation – sustained growth requires reliable water supplies. Drought also affected export commodities.

State revenues depend on capital-intensive extraction industries, while pressure on the land requires more employment in labour-intensive manufacturing and processing industry. Progress was made with both. Large coal, liquid natural gas and linked hydroelectric, alumina and aluminium projects seemed well launched, as did processing ventures and nickel mining and the Krakatau steel plant. Fertiliser and cement capacity increased substantially. The largest manufacturing industry, textiles, and timber processing, including sawmills and particle board, veneer, plywood and chip plants, continued to expand. Local industries

benefited from a more effective campaign against smuggling, which also reduced imports early in the year. These subsequently revived, while, despite stagnant commodity production, rising world prices greatly increased export earnings, brought the balance of payments back into surplus and completely restored foreign exchange reserves. Because of the earlier payments deficit, measures to stimulate exports were announced on 30 March, including concessional interest and transport rates and simplified procedures, while export taxes were reduced or ended on most products, especially where this helped to increase small-holding and processing employment.

To restore Pertamina's position the government secured larger sums in official aid and commercial loans and raised the debt service ratio – the World Bank believed this to be approaching 20 per cent, but the government quoted a much lower rate. The 1976/77 budget concentrated virtually all growth of public expenditure on development, especially of labour-intensive activities and aid for agriculture. For 1977/78 the government relaxed restraint on recurrent expenditure, notably for civil service salaries, in view of better commodity prices, a further average increase of about 7 per cent in Indonesian crude prices and a decline in the annual inflation rate, on official figures, from 20 to 14 per cent. Despite the disappointing harvest, the economy recovered well from earlier difficulties, but achievement of a 7 or 8 per cent real annual growth rate seemed to depend on a greater revival of private investment.

India

Mrs Gandhi visited the USSR and African countries and other ministers the Asean states. An Indian ambassador was posted again to Peking in July and a Chinese ambassador to Delhi in September. It was agreed with Pakistan in May to restore diplomatic relations, to renew air, road and rail links, to permit overflights and overland traffic and to develop trade relations – ambassadors were exchanged in July and problems arising from Indian dam building on the Chenab were discussed amicably in the autumn. Less progress was made in relations with Nepal, while Bangladesh complained of Indian support for armed bands operating across the border and of excessive Indian abstraction of water from the Ganges at the Farakka barrage.

Powers of detention were extended in June for a year, some further constitutional rights were suspended and arrests continued of Jan Sangh and other opposition constituency workers, while the leader of the Socialist Party was charged with sabotage. On 28 April the Supreme Court denied, by a four to one majority the right of citizens detained during the Emergency to writs of habeas corpus. Censorship on foreign correspondents was eased, but independent local newspapers and periodicals came under increased pressure to conform, as did judges concerned in court rulings against the government. It was stated in August that it was intended to hold general elections in March 1977, but indicated that publication of election speeches bringing the government into disfavour would be prevented – censorship already covered opposition speeches in Parliament. The opposition government of Tamil Nadu wished to hold state elections due in February, but was accused of encouraging secessionist activity and on 31 January the state was placed under President's Rule. The opposition coalition in Gujerat narrowly lost a vote in the Assembly on 12 March, following changes of allegiance, and here too President's Rule was imposed. Elections by sitting assemblies to seats in the upper house of Parliament took place in March and dissolution of the Tamil Nadu Assembly made it easier for Congress to gain a two-thirds majority, so permitting amendment of the constitution.

A constitutional amendment bill introduced on 1 September passed both houses in November. It greatly strengthened central executive powers under normal constitutional conditions. It required the President to accept Cabinet advice and gave him power for two years on such advice to make permanent constitutional changes without reference to Parliament. The term of President's Rule over a state and of any extensions was to be 12 months instead of 6 and parliaments were to be elected for 6 years instead of 5. Mandatory duties were imposed on citizens and their rights were reduced, as were the powers of the courts to protect them against the executive. Control of agriculture by the states and the right to property were, however, maintained, since change, which might facilitate progress towards land reform, was strongly opposed within Congress. Parliament also carried resolutions making possible extension of its life to March 1978.

In the 1971 general elections, because the opposition was fragmented, Congress secured 68 per cent of seats, with only 43 per cent of the vote. The principal non-communist opposition parties discussed a common programme and on 26 May formed a united party; the Communist Party of India still gave support to Mrs Gandhi, while the Communist Party (Marxist) continued to be in independent opposition. Within Congress itself internal tensions again reached a sufficient pitch for press discussion of them to be forbidden, while Sanjay Gandhi greatly extended his authority. He put forward a five-point programme – only two children to a family, improvement of the

environment and an end to illiteracy, to dowries and to the caste system and untouchability. Some had long been Congress policy, but had made little headway and he gave them a new impetus. As head of the Youth Congress he promoted voluntary efforts to improve the rural environment, but the brusque way in which other aspects of these policies were pursued, notably the removal of shanty towns and sterilisation, aroused popular resistance. Sanjay Gandhi also urged rapid change to a market-oriented economic policy; the CPI did not conceal its distaste for this and was in consequence sharply criticised by Mrs Gandhi.

The attempt, begun in 1974, to consolidate and invigorate the economy by greater use of market forces was extended. The 1976/77 budget in March again eased personal taxation. The top marginal income tax rate was reduced to 66 per cent and wealth tax rates were halved at lower levels and cut by over two thirds at the highest level. It was hoped, with harsher measures against evasion, to offset these concessions by improved collection. These factors may also have contributed to a three-fold increase in individual remittances from abroad. Corporate tax rates were unchanged, but industrial investment allowances were improved, dividend restraint was removed and some help was given to industries suffering from depressed demand, including reduced duties on consumer durables and intermediates. The rate of domestic savings was a little depressed and stock market prices and private industrial investment increased cautiously.

Industrial licencing, protection and import policy were eased, especially for capital goods industries which had become more competitive and were beginning to export. The squeezing out of inefficiencies in manufacturing industry and commerce continued. Since these were deeply entrenched the process was painful. It included reducing over-manning, formerly protected by statutory requirements and the strong position of the unions. As a result, although manufacturing output moved ahead again – by over 10 per cent during the year – unemployment, already massive, still increased. Growth, moreover, was mainly in heavy industry. Demand for consumer goods was weak and this applied especially to products such as cheap cotton cloth, suggesting that deflationary measures and the continued holding back of cost of living and incremental allowances had cut the purchasing power of urban workers, while lower grain prices had reduced the cash element in peasant incomes.

1975 had an ideal monsoon and a record grain harvest of 118 million tons – the target for 1973/74, the last year of the fourth plan, had been 128 million tons. By April 1976 stocks, at 11 million tons, were greater than could be stored properly, while grain prices had fallen by up to a half. The government built more silos and continued to buy; its buffer stock was more than 18 million tons by October. Lower prices led to some switching from grains to other crops, but efforts were made to increase fertiliser use and the monsoon, although erratic, with drought in southern and floods in northern states, was on balance satisfactory. Grain output was little below 1975 and prospects for the 1977 spring crop seemed favourable. Shortages of edible oils developed and supplies were imported, while raw sugar exports were restrained to maintain domestic supply. Output of tea increased in northern India, despite heavy rain, but in the south was reduced by drought. Jute acreage rose considerably, although demand seemed likely to fall, despite continued subsidies and the ending of export duties on jute goods.

The cotton textile industry suffered from slack domestic demand. Performance in state-owned heavy industry was greatly helped by improved supplies of raw materials and electric power, better transport and quieter industrial relations. Increased capacity and production in some industries, including steel, coal and fertilisers, led to excessive stocks, notably of coal, and stimulated exports. Large funds were devoted to the rapid expansion of petroleum and natural gas output. Annual oil consumption was around 24 million tons. Gujerat and Assam provided 8.5 million tons, rising towards 10 million tons over two years. The Bombay High field began to contribute offshore supplies – 1 million tons in its first year with perhaps 10 million tons in 1980. In view of high exploration costs and the need to cut imports rapidly the government maintained the new policy of using foreign and state concerns to search for oil, while acquiring all refining and distributing operations.

The rupee declined a little against the US dollar until September, so maintaining the competitive advantage gained by depreciating with sterling until September 1975 while checking inflation. Exports of steel, coal, chemicals and machinery increased, but up to August imports, owing to reduced purchases of food, fuel and fertilisers, were a fifth below the 1975 levels. This created a trade surplus in place of the large deficits of the two previous years. Remittance, tourist and other invisible receipts also rose and, despite repayments to the IMF, reserves improved embarrassingly for a country which sought and received increased assistance, including much commodity aid. By September foreign exchange reserves had almost tripled in twelve months. Liberalisation of imports of industrial equipment and of commodities in short supply, such as edible oils, raw cotton and

Liu Sze-keung notes the colour and bustle of pavement stalls in Hong Kong where the surge of human life continues cheerfully and busily even as the world is torn down and rebuilt around it.

polyester fibres, then restrained this expansion.

Revised Fifth Plan targets adopted in September provided for considerably increased private sector investment. Overall growth in 1975/76 had risen above 5 per cent. The budget was designed to sustain this recovery. It increased development expenditure by 31 per cent, especially for energy, transport and industries related to agriculture. It was hoped that unused capacity in industry would offset the inflationary effect of a sizable deficit. Wholesale and retail prices declined until the end of March, when wholesale prices were 15 per cent below levels 18 months earlier, but industrial production had revived in December 1975 and prices began to rise in April, while large credits for foodgrain stocks expanded money supply. By November money supply with the public had risen 15 per cent in twelve months – rapid price inflation in 1973/74 and 74/75 had followed increases of 13.1, 15.9 and 15.4 per cent in money supply over the years 1971/72 to 1973/74. Average wholesale prices, which covered lower foodgrain and sharply increased vegetable oil and fibre prices, were just above the level a year earlier in October. They moved upwards again in November, causing official concern, and efforts were made to control them, both selectively, by increasing imports or restraining exports, and generally, by tightening credit even further.

Sri Lanka

The prospect of general elections by May 1977 prevented decisive reform of the economy. Mrs Bandaranaike presided over the Non-Aligned Conference in Colombo in August and the result of a subsequent bye election, in which there was a reduced swing from the Sri Lanka Freedom Party to the United National Party, suggested that this had impressed some voters. A Tamil United Liberation Front formed in May included all the leading Tamil groups, but seemed not to agree on the issue of secession. Registrations of Tamils from the plantation areas willing to take Indian passports continued, but to avoid emigrating more applied for the smaller quota of Ceylon passports. There were Muslim/Sinhalese riots, while disturbances in the Peredeniya campus of the University, in January and again in November, led to a student being killed during police action.

Relations between the SLFP and its remaining ally, the Communist Party, deteriorated and the government came under heavy attack from the Trotskyist Lanka Sama Samaja Party and other opposition parties. There was a movement with influential support within the SLFP to postpone elections again, but Mrs Bandaranaike appeared to oppose this and the party was thought to lack the majority required to pass the necessary

legislation. Socialist policies seemed to attract less popular support and both the UNP and SLFP moved towards the centre. Bye election results suggested that unemployed electors were voting for the UNP and in July the Finance Minister announced a job creation programme. Over 900,000 people, perhaps a fifth of the work force, were thought to be unemployed, with few new job prospects except by emigration to the Middle East. Average real growth, which had improved in the late 1960s, had declined again and domestic investment, having risen from 10.8 per cent of GNP in 1966 to 17.7 per cent in 1970, had fallen to 9.9 per cent in 1974.

External loans offset some of this decline and tax concessions in the 1976 budget and improved foreign exchange allocations permitted greater productivity in existing private industry. Foreign companies were brought into the search for oil and joint ventures with Japanese firms in ceramics and fishing, based on exclusive long-term export marketing agreements, were launched. Fisheries were assisted by foreign financial aid and an act claiming a 200 mile exclusive economic zone offshore. A compensation agreement with foreign plantation interests, although ungenerous, ended delay and permitted repatriation of funds. Other actions, however, discouraged confidence and investment. A foreign investment guarantee law was not introduced because of criticism by the LSSP, the CP and the SLFP's left wing. The intention was announced of nationalising British commercial banks and the Business Acquisitions Act was used to acquire company assets, but not liabilities, and the Land Acquisition Act to seize offices for state concerns. The Termination of Services Act induced inefficiency by compelling retention of excessive staff and price fixing powers were extended to some 30 new items despite the Price Commission's view that they inhibited production.

Up to September the growth rates of trade and payments deficits and net external debt, incurred to support consumption rather than development, abated, due partly to reduction of stocks, but also to higher rubber, tea and, later, coconut prices and to a 30 per cent increase in tourist visitors. The rupee, having fallen to a more realistic level, was detached from sterling on 24 May and thereafter declined less than the pound. Better export crop prices were offset by a severe drought until October which heavily reduced rice crops and limited tree crop and electricity production – the first phase of the Mahaweli diversion scheme was commissioned in January just when the river's flow was dwindling rapidly. External debt increased by a quarter, while a large budget shortfall was forecast, to be met largely by aid. In the nine months cuts in prices of subsidised foods held consumer price index growth to 1.3 per cent, but money supply rose by a quarter and in November commercial banks were directed to restrict credit.

Abolition in October 1975 of the ban on the private trade in rice stimulated paddy farming. Uncertainty over investment in tea, rubber and coconut, which still provided three quarters of export earnings, had been resolved in October 1975 when the state took over the plantations, but the arrangement by which the managing agencies were to run them until new management could be created was ended, although the estate managers were retained. There seemed, however, no clear intention of reversing the process by which export crops had been milked to subsidise consumption and uneconomic state industries, so that agricultural industries had had neither the savings nor the incentive to undertake the replanting and other measures needed to improve foreign exchange earnings. Moreover, instead of using lower world prices to reduce the cost of food imports, which in 1975 had consumed three fifths of total export earnings, the government increased subsidised rations or brought down the prices charged, while announcing that it would absorb higher oil prices. It seemed that after the election economic necessity would require action to cut subsidies, return resources to agriculture and concentrate industrial development on labour-intensive industries using local raw materials.

Mauritius

The electoral registers were revised following the lowering of the voting age to 18 from 21 and on 21 October the Legislative Assembly elected in August 1967 was dissolved. Its life had been extended for an extra five years in 1969, when the conservative Parti Mauricien Social Démocrate, which secured 44 per cent of the vote in 1967, entered the coalition led by the Labour Party under Sir Seewoosagur Ramgoolam. In 1970 a new party, the Mouvement Militant Mauricien, reflecting the discontents of relatively educated young people unable to find attractive jobs, won a large majority in a bye election. In 1971, to try to force an election, it called a general strike which led to a state of emergency. In 1973 the MMM and the Labour Party discussed a coalition, without reaching agreement, and the constitution was amended to abolish bye elections. The PMSD left the coalition in 1973, reducing the government majority to five, and in 1975 and 1976 the MMM and PMSD promoted strikes in order to gain electoral support.

The Labour Party failed perhaps to devote as much attention to electoral activity as to meetings in Mauritius of the Organisation of African Unity and other bodies. It relied on the government's

record, including measures to provide jobs by encouraging investment in light industries, but did not match MMM's campaigning effort. MMM policies included elements of nationalisation and redistribution and were described by its leader, Paul Bérenger, as 'very leftist, even revolutionary' Polling was on 20 December. The MMM received two fifths of the vote and 30 seats out of 62, the Labour Party and its Muslim allies 25 seats and the PMSD 7 seats. These totals were increased to 34, 28 and 8 by additions of 'best loser' seats. Mr Bérenger rejected collaboration with other parties, while the Prime Minister was 'willing to cooperate with everyone' and was able with the PMSD to form a new coalition government. Its programme included free secondary and university education, a 40-hour working week, better housing and incentives to stimulate tourism and the development of employment in industry. It was widely supposed that the coalition's slender majority would induce an early election with a view to translating its combined voting strength into more parliamentary seats.

Steady rainfall resulted in heavy cane growth, although late rain reduced extraction rates. Sugar output was around 700,000 tons, half as much again as the cyclone-affected 1975 crop. On 5 June an ACP team led by the Minister of Agriculture reached agreement with the EEC on an intervention price in EEC units of account for the 1976/77 ACP country quotas which, although less than the price paid by Britain in 1975, was little short of twice the London daily price in late December. The Mauritian quota was 550,000 tons together with 41,000 tons shortfall from 1975. Costs of sugar production again rose rapidly, with minimum unskilled wage rates reaching 3.5 times the 1971 level, while productivity declined, so that profits were eroded. The tea industry continued to suffer from labour shortages and limited markets.

Consumer prices rose sharply in the first half of the year. Linking of the rupee to SDRS instead of sterling from 5 January avoided greater increases, but lack of a forward exchange market created other problems and a growing trade deficit seemed to require import restraint. Export earnings were helped by denomination of the guaranteed sugar price in EEC units. In May the recurrent budget envisaged a small surplus; personal allowances and social welfare benefits were raised and the proposed traders' profit tax was not introduced. Capital expenditure was to be increased by 14.5 per cent. The 1971-1976 Plan achieved its target of 52,000 new jobs, but prospects for the higher 1976-1980 Plan target were less promising. Statutory increases in wage rates, politically inspired strikes, rising absenteeism, falling productivity, slow progress with port and other infrastructure and declining profits all combined to discourage new investment. Political uncertainty was expected to maintain this situation in 1977.

Conclusion

The two largest Asian countries, China and India, could perhaps progress shut off from the rest of the world, even though economic development under such conditions would be inefficient and slow. In 1976 neither China nor India imported or exported as much as Hong Kong, which has much less than 1 per cent of the population of either, and foreign trade is unlikely ever to amount to more than a relatively small proportion of Chinese or Indian domestic product. Both in practice aim at a foreign trade which has a significance greater than its proportion in filling temporary gaps in production and in speeding up modernisation. In recent years China, while using domestic production of capital goods to spread small and medium scale industry more widely and evenly throughout the country, has used export earnings to make up shortages of essential supplies such as grains, steel, fertilisers and transport equipment, and to buy large-scale sophisticated plants for selected industries.

Other countries in Asia are much more dependent on the prosperity of the major market-oriented industrialised countries. Oil price rises in 1973 harmed the economies of most Asian countries more by causing recession in North American, Japanese and Western European markets than by raising the price of the energy they consumed themselves. When the economies of the developed countries are depressed producers of industrial raw materials and inessential manufactured goods are especially affected. Producers of essential goods, such as clothing, suffer less. When there is recession in advanced countries there is inevitably pressure from local producers for import restraints, but this is partly offset by the fact that cheap imports help to keep down living and other costs. During 1976 the Japanese and Western economies revived, although more cautiously than after previous recessions, and whereas the volume of world trade dropped in 1975, it rose by about a tenth in 1976, stimulating demand for many South and Southeast Asian products.

Better sales of tin and timber brought prices in December to well above those 12 months before. The Fifth International Tin Agreement came into effect on 1 July with the US as a member. Cotton, copper and rubber prices all rose by moderate amounts in real terms; on the London market rises were substantial because sterling dropped 20 per cent on average against other currencies. A price stabilisation agreement for rubber signed in

Nike Arrighi provides an epitome of Hong Kong, which to her seems always to be reaching for the skies supported by little more than a natural toughness and flexibility not unlike that of bamboo.

November provided for floor and ceiling prices, a 100,000 ton buffer stock and rationalisation of supply; restraint has always proved difficult because of the many small producers. Sugar prices fell back further; high prices in 1974 may have a long-term effect on demand, since they stimulated installation of plant to produce corn syrup and similar sweeteners. Prices of jute barely moved, those of palm oil declined because of rapidly growing output, especially in Malaysia, while tea benefited from highly inflated prices for coffee.

Within the developed world a process of education and readjustment continued. The IMF decided formally to amend its rules to authorise floating exchange rates and it became more widely appreciated that intervention by central banks to do more than smoothe out fluctuations merely provides opportunities for speculation and that stable exchange rates result from, rather than create, economic stability. Where economic performance differs, exchange rates will change. Differing inflation rates and trade results caused France to leave the European currency 'snake', West Germany to revalue the deutschemark to stay within the 'snake' limits, the yen to strengthen and the British and Australian currencies to decline. The IMF began to sell gold with a view to eliminating it from the international monetary order and as a factor in foreign reserves, whose importance should decline under a genuinely floating regime, but the effect by the end of the year seemed slight.

There was a broad swing of opinion towards the view that economic growth and high employment would not be achieved unless inflation could be controlled. The OECD urged the view that to keep inflation below 8 per cent a year, growth rates must be limited to 5.5 per cent until the 1980s. The United States and West German governments shared this view, as did that of Japan, and a meeting of major industrialised nations in June agreed that excessive stimulation and new restraints on trade and capital movements should be avoided and that to achieve sustainable economic growth, while reducing inflation and unemployment, policies of fiscal discipline and monetary control must be followed. The IMF also believed that inflationary expectations made stimulatory policies self-defeating. Even Britain eventually adopted policies designed to hold down money supply, reduce budget deficits and redirect a larger proportion of the national product from public expenditure into industrial investment, a policy which seemed likely to work slowly and painfully because it had been left so late. The general prospect was therefore for little immediate increase in growth rates, but perhaps steadier and better sustained progress for the future.

The British Bank of the Middle East

For the information of shareholders, I add a summary of the statement of the Chairman of *The British Bank of the Middle East* Mr Angus Macqueen, which accompanied their accounts for the year ended 31 December 1976. All currency amounts are quoted in the sterling equivalent and oil figures are given in metric tons.

Afars and Issas

In the spring, renewed demands for complete independence led the French Government to agree in principle and there was subsequently much discussion of the many problems involved. Economic activity is limited and all parties now appreciate that the independent state will have to rely on financial and technical assistance.

Congestion in other Red Sea ports brought cargoes to Djibouti for transhipment to Saudi Arabia and Yemen with the result that port traffic rose by nearly 60 per cent despite the subdued level of internal business.

Bahrain

Bahrain continues to attract international business with the aid of its geographical position and educated population. The government is extending services such as electricity, sewerage and transport and is urgently trying to meet the housing needs of the lower paid, while the private sector is active in the construction of houses and hotels, but the shortage of accommodation is still acute.

The dry dock project has been making good progress and work has started on expansion of the port of Mina Sulman. A new feasibility study of a causeway linking Bahrain and Saudi Arabia has been accepted by the two governments and the latter has offered to meet the cost. The aluminium company, in which the state's holding is now 78 per cent, has had a good year, but oil output declined slightly to 2.9 million tons; the national oil company has taken over control of distribution and of 60 per cent of production. Both imports and exports have been at rates considerably higher than during 1975. Following the decision to licence Offshore Banking Units, by the end of November twenty-five with assets of over £3,000 million had been established, one by our parent, The Hongkong and Shanghai Banking Corporation.

Jordan

The pace of development is quickening and the £1,200 million five-year development plan which envisages a 12 per cent annual growth rate was launched during the year. Over half the total will be required in foreign loans to help finance the various projects and large offers of aid have


"HONGKONG" 197

already been received from both Arab and Western countries. The state budget for 1976 showed an increase of 45 per cent and allocated almost half of the total to capital investment.

Expansion of the phosphate mining industry is continuing, with a 17 per cent increase in exports, and construction of a phosphate fertiliser plant is in progress. Work is in hand to extend the port of Aqaba; roll-on roll-off facilities are already in operation, while the tonnage handled in the first six months was 140 per cent greater than in 1975. The new international airport south of Amman is making good progress and improvement of the refinery has continued. Development activity has led to a deterioration in the balance of trade, but gold and foreign exchange reserves have continued to rise owing to a more favourable balance of payments.

Lebanon

Our main Beirut office was destroyed in January 1976, during the civil war. Alternative temporary premises were prepared and occupied in time for a general reopening of banks in February, but the cease-fire which permitted that activity was short-lived and those premises also were subsequently looted and burnt.

While we continued to operate in the north, at Tripoli, from the Ras Beirut office, and through a liaison office in East Beirut, essential records and remaining accounting equipment were rescued during June and removed to Cyprus, where a liaison office has since continued to attend to our business in the Lebanon.

The establishment of an Arab Peace Force has led to a cease-fire with a reasonable chance of holding firm and we are proceeding to re-establish our ability to offer a full range of customer services.

The country faces the enormous and daunting task of reconstructing a shattered economy, but its leaders are tackling the problems in a workmanlike and imaginative way, and with that guidance, and given security and peace, the energy and enterprise of the Lebanese people will do the rest.

Oman

The end of hostilities in Dhofar was encouraging, although it is still necessary to maintain a state of preparedness in the armed forces. Development of the infrastructure and of social services makes good progress, particularly outside the area of the capital. Several government low-cost housing schemes have been completed and a start has been made in Musandam in the north, while extension of electrification, the telephone system, education and health facilities also receive priority. The main private sector activity is the building of housing, with the Qurum area particularly favoured. Work has started on the new port of Raysut and the road network has made further progress.

The new five-year development plan assumes annual growth of 3 per cent in real terms and allocates £2,318 million for project investment. It stresses the need to develop non-oil sources of income to offset the expected decline in production from comparatively small oilfields, although in 1976 output increased 8 per cent to 18.2 million tons. Oil exploration continues both onshore and offshore, but no new successes have been reported. The rise in imports has halted and the total for the year is expected to be close to that for 1975. The Central Bank continues to expand its operations and has new premises under construction. At the end of September 16 commercial banks had authority to operate, with licences for 98 branches.

Qatar

The economy is soundly based and development projects make steady progress. Construction of additional berths at Doha port has started, road building is active and an earth satellite station and an automatic telex exchange have been completed. In the industrial sector, which was allocated £226 million in the 1976 development budget, compared with £38 million in 1975, building of the steelworks and petrochemical plant is proceeding, while in the social sector also activity has concentrated on projects in progress rather than new ones.

Agreement was reached on the implementation of the decree nationalising the remaining 40 per cent of the Qatar Petroleum Company in October. The government's long-term plans are based on the use of natural gas and drilling in 1976 was for the purpose of appraisal, especially of the substantial offshore discovery which is not associated with the oilfields. Oil exports in 1976 rose by 10 per cent to 22.8 million tons with a small decrease in offshore production more than offset by recovery on land. Imports in the first eight months of 1976 totalled £206 million, around 30 per cent more than in the same period of 1975.

Saudi Arabia

King Khalid and his ministers have continued to deploy the strengths of Saudi Arabia to promote peace and prosperity. In Arab affairs efforts to relieve tension in the Lebanon culminated in the meeting of heads of state in Riyadh in October. At OPEC meetings the Saudi vote was for moderation, showing most responsibly a consciousness both of the danger of inducing renewed recession in the industrialised countries and of the growing difficulties of Third World countries.

Domestically, realisation has been growing that the physical and human resources of the nation are insufficient to achieve the rate of progress planned,

even though finance is adequate. It has been agreed to concentrate on essentials with port development first. Expansion of Jeddah and Dammam and new ports at Jizan, Yanbu and Jubail will raise berths available from 29 to 125. Meanwhile, with the aid of British consultants, port administration has been improved and waiting times reduced. Urban development has been the other main activity with large housing programmes in both public and private sectors accompanied by the extension of roads, electricity, water and other public services, while industrial plans, especially major projects, now have a lower priority.

The budget for 1976/77 is balanced at £18,500 million with £16,600 million of the revenue coming from oil and two thirds of the expenditure allocated to capital projects. Oil production in 1976 rose by 21 per cent, principally because of large sales in the latter part of the year, but the total of 428 million tons was less than the government had been prepared to allow.

Imports continue to rise rapidly and in the first half of 1976 the total was 63 per cent above the first half-year figure for 1975. Saudi Arabia and the United Kingdom have established a joint economic commission which is now actively represented in Riyadh by an office of the Department of Trade.

Switzerland

Money continues to flood into Switzerland despite all attempts at discouragement and the authorities now appear to accept the situation. Weakness of the French franc and Italian lira is thought to have been an influence in 1976 though vigilance on the borders has increased. The annual inflation rate has declined from 14 per cent to 2 per cent in two years and, although there are complaints about prices, the consumer price index has risen by under 1 per cent in twelve months and exporters operate from a stable base. Control of inflation and price stability epitomise the financial skills of the Swiss.

There is every indication that the gentle recession has been reversed, with domestic consumption and orders increasing in the latter part of the year and some rebuilding of stocks. Reduced demand for labour resulted in 200,000 foreign workers going home, and may be slow to revive since many Swiss companies have improved productivity. The construction industry remains very depressed and the high value of the Swiss franc deters tourists. An exceptionally dry summer is expected to result in the output of power being 12 per cent less than in 1975 and in its export being halved.

United Arab Emirates

The Supreme Council of Rulers unanimously elected His Highness Shaikh Zayed as President for a second term. The most important amongst moves towards greater integration was an agreement to place the various armed forces under a unified command, with the President as Commander-in-Chief. Coordination of industrial development is on the agenda, while international communications have been further improved. A census was reported to have shown the total population as 656,000 with nearly 236,000 in Abu Dhabi and 207,000 in Dubai.

The federal budget for 1976 raises expenditure by 82 per cent to £615 million, including £298 million for development. Legislation enables the Currency Board to be reconstituted as the Central Bank and discussions have continued with Kuwait, Bahrain and Qatar with a view to introduction of a common currency. The authorities decided to issue Restricted Banking Licences permitting almost any banking operation, except dealing in dirham deposits made by UAE residents. Twelve licences have been issued, including one to our Bank.

Abu Dhabi

Rapid growth continues in all sectors, especially construction. The cement plant has been completed, new berths will be operational in 1977 and more are planned, the road programme continues and the first contract for the new airport has been awarded. New housing projects are in hand, the two large hospitals are progressing and work has started on a sports complex. Agricultural projects are under way and afforestation is again emphasised.

The 1976 budget included allocations of £740 million for development, £667 million for aid and £593 million for the federal budget. The revenue estimate of £2,726 million should be comfortably exceeded, because oil production has risen by 14 per cent to nearly 77 million tons. The refinery to supply domestic requirements was officially opened in April and commissioning tests have been run on the Das Island plant which is designed to supply liquefied natural gas for Japan.

Ajman

A shipyard with a dry dock to take ships of 3,000 tons and provide facilities for the construction of barges and for steel fabrication has been completed with Japanese assistance and further developments on Ajman creek are in hand.

Dubai

A new industrial town is to be developed at Jebel Ali, 25 kilometres from Dubai, with initially an aluminium smelter, gas processing, power and desalination plants, an international airport and a port with 74 berths. Already several contracts have been awarded and work on the foundations has started. The expansion of Port Rashid from

King Chia-lun from Hong Kong, an industrial city, draws attention to the dangers to that thin, finely balanced and fragile envelope for our earth, the air, by which all life is protected and sustained.

15 to 37 berths continues and further contracts are aimed at increasing the range of services in the dry dock complex.

Construction of the 33-storey Trade Centre is going well and road developments continue, while there is immense activity in private construction. Imports increased by over half in 1975 and are still growing. Oil production in 1976 rose by 23 per cent to 15.5 million tons and a new discovery has yet to be evaluated.

Fujairah
Substantial progress has been made with provision of housing, education and health facilities in towns and villages. Road construction in very rugged terrain is making progress and the small ports of Fujairah and Kalba are being expanded.

Ras al Khaimah
The federation is undertaking extensive low-cost housing schemes and other social services, while there is much private property development. The new international airport was opened in March and construction of Port Saqr has made such progress that it is expected to be in operation by the middle of 1977.

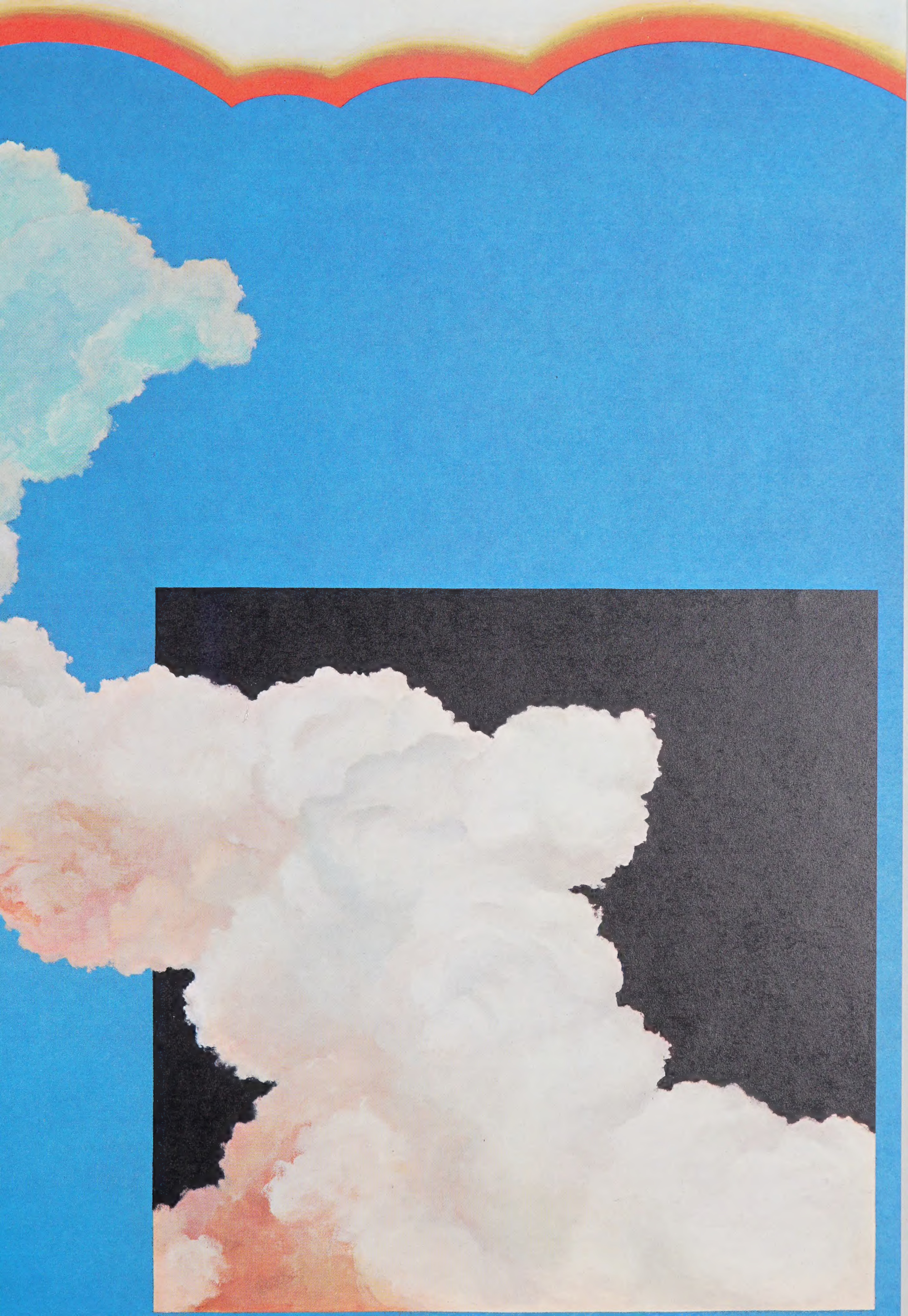
There has been good demand for the cement produced at Khor Khuwair and work on doubling capacity continues. The possibility of commercial exploitation of a recent offshore oil discovery is being investigated.

Sharjah
New roads, water and sewerage systems and schools are being constructed according to the town development plan ahead of private building, which has continued busily. The Al Qasimia hospital is open and two container berths in Port Khalid are in operation; the five general cargo berths, the international airport and the cement factory should be ready in 1977.

Completion of surfaced roads to the east coast has brought a rapid increase in public and private housing projects and other services and the development of tourism is being considered. Above all, work has started on a deep-water port for container ships at Khor Fakkan.

Umm al Quwain
Public services and housing are being improved with federal assistance and there is a project for an asbestos factory. Oil exploration is continuing, so far without success.

Yemen Arab Republic
Aid on a generous scale from Arab and other countries, with the largest share provided by Saudi Arabia, has enabled the government to maintain



the momentum of its three-year development plan. The Tihama agricultural project in the north has made good progress and there have been further extensions of modern paved roads, much needed in the mountainous terrain.

The 1976/77 cotton crop is likely to be less than the 24,000 tons last year, but the Hodeidah ginnery is in operation. At Salif, equipment is nearly ready for direct transfer of pure rock salt from mine to ship. The 1976/77 budget put total expenditure at £161 million, with a deficit of £49 million which it is hoped will, as in previous years, be covered by aid. With a large trade deficit the balance of payments also benefits from aid, but still more from remittances by emigrant labour in Saudi Arabia, which have transformed the economy.

Iran

Our associate in Iran, *The Bank of Iran and the Middle East*, reports as follows:

The restraint on government spending imposed earlier has not been relaxed and several ministries have been merged to restrict growth of the civil service. Price control has been strictly applied and in twelve months over 100,000 persons have been prosecuted under it. The share participation scheme is under way and some 100 large companies are reported to have so far sold around twenty per cent of their shares to the public.

The economy appears to have returned to an annual growth rate between 8 and 12 per cent and the oil sector continues its dominant role. Two principal objectives already determined for the sixth development plan starting in 1978 are to maintain the development of productive projects, especially in heavy industry, and to eliminate bottlenecks, with priority for infrastructural schemes such as ports and roads. There is growing concern about agricultural output, which has regularly fallen below expectation, despite employment of two fifths of the labour force and progress in irrigation, mechanisation and use of fertilisers.

Agreement was reached for the construction of an Iranian/Japanese petrochemical complex to cost £1,150 million and several large contracts have been awarded for the development of the iron and steel industry. Further agreements have been signed with German and French companies for a government programme for rapid development of nuclear power.

The budget for 1976/77 estimated revenue at £16,284 million, including £12,000 million from oil, which will be considerably exceeded. Expenditure allocations included £4,815 million for defence and £4,920 for economic development.

Production of oil benefited in the spring from a price reduction and in the autumn from stockpiling by consumers ahead of the expected general OPEC price increase, at which time the National Iranian Oil Company made considerable direct sales. Production in 1976 rose by 10 per cent to about 294 million tons and near the end of the year was at a rate close to present capacity.

Imports in the year ending March 1976 rose by 77 per cent to £6,880 million, while non-oil exports increased modestly to £349 million. Preliminary figures suggest that the rise in imports has almost ceased and waiting times at Iranian ports are at last beginning to shorten.

Cyprus

Our representative with *The Cyprus Popular Bank* reports as follows:

No significant progress has been made towards a solution of political problems, but there have been no major incidents and it is hoped that new initiatives may be possible, since elections in September produced a clear majority in the House of Representatives. The government has been particularly active in developing communications and irrigation, while construction in the private sector has met additional demand from Lebanese businessmen, whose arrival has stimulated commercial activity.

In 1975 government revenue amounted to £79 million and expenditure to £102 million, with an additional £17 million for development, and trade has expanded rapidly although the deficit remains large. Remittances from abroad, however, are at a high level, the tourist industry is now reviving and overseas contracts have been making a valuable contribution, although they also create a shortage of skilled tradesmen.

Tunisia

A banking law promulgated in February 1976 led, following approval by the central bank in June, to merger on 1 July of our operations with Tunisian and other foreign banking interests in a new bank, *Banque Internationale Arabe de Tunisie*.

During the Tunisian Fourth Development Plan an annual growth rate of six per cent was achieved. Sections of the Fifth Plan have been published and include land, sea and air communications, the oil, agriculture, tourist and manufacturing industries and housing. The 1977 budget envisages ordinary expenditure of £583 million and allocates £930 million for development.

The 1975 trade deficit amounted to £315 million. Compared with 1974 exports of phosphates fell by a fifth and olive oil by half. There was an increase of six per cent in crude oil exports, but the overall trade position was not encouraging. A fall in foreign reserves during the early part of 1976 was restored by the end of August with outside help.

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